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NAVY SUPPLY SYSTEM

HEARING

BEFORE THE

SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS

FIRST SESSION

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NAVY SUPPLY SYSTEM

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SEAPOWER AND STRATEGIC AND
CRITICAL MATERIALS SUBCOMMITTEE,
Washington, DC, Tuesday, October 1, 1985.

The subcommittee met, pursuant to call, at 10 a.m., in room 2118, Rayburn House Office Building, Hon. Charles E. Bennett (chairman of the subcommittee) presiding.

STATEMENT OF HON. CHARLES E. BENNETT, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE

Mr. BENNETT. The subcommittee will come to order.

The hearing today is an oversight hearing on the operation of the Naval supply system, with particular emphasis on the operations of the supply system on the U.S.S. *Kitty Hawk*, an aircraft carrier based in San Diego, CA. As a result of allegations made by a former Navy petty officer, Mr. Robert Jackson, and the efforts of Congressman Jim Bates, and Congressman Duncan Hunter, a member of this subcommittee, questions have been raised about the ability of the Navy supply system to protect valuable property from theft. Questions have also been raised about the general management of the supply function aboard the *Kitty Hawk*, to say nothing of the Navy as a whole.

The Navy and other agencies of the Federal Government have initiated investigations. The Navy conducted a command investigation of the allegations made by Mr. Jackson and the findings of that investigation will be the subject of testimony today. The Navy investigation is known as a "JAG Manual Investigation" because the investigation was conducted in accordance with procedures established by the Navy Judge Advocate General.

There is also an ongoing criminal investigation that includes a number of Federal agencies. Published reports have linked supply problems on the *Kitty Hawk* with the sale of aircraft parts to Iran. Because of the ongoing criminal investigation and the possibility that inquiry into criminal activity could affect the Justice Department's ability to prosecute, the committee will not delve into criminal matters in this hearing. However, the committee has been informed that individuals are expected to be brought to trial in the near future as a result of the criminal investigations.

The Navy inspector general has the responsibility within the Navy to see that the two separate investigations, the command in-

vestigation and the criminal investigation, are coordinated and do not inadvertently omit any material matter.

The subcommittee's purpose in the hearing today is to hear the allegations and the results of the Navy investigation of the allegations, except as the allegations relate to criminal matters subject to separate investigation for reasons already expressed.

The subcommittee will be seeking to assess the Navy's investigation and the actions taken as a result of the investigation. Primarily we will be looking for any legislation that may be required or administrative procedures that we could suggest to the Navy as improvements. They are seeking improvements to the very best of their ability as well.

The committee will hear testimony from three witnesses today. The first witness will be the Honorable Jim Bates, Representative from California. Congressman Bates has been instrumental in bringing the circumstances on the *Kitty Hawk* to public attention.

The second witness will be Mr. Robert Jackson, a former petty officer who served on the *Kitty Hawk.*

The third witness will be Commodore James B. Whittaker, Assistant Commander, Naval Supply Systems Command.

Mr. Spence, do you wish to make a statement?

STATEMENT OF HON. FLOYD SPENCE, A REPRESENTATIVE FROM SOUTH CAROLINA, RANKING MINORITY MEMBER, SEAPOWER AND STRATEGIC AND CRITICAL MATERIALS SUBCOMMITTEE

Mr. SPENCE. I would just like to say that I look forward to the subcommittee's hearing today as a way to clear the air concerning allegations of wrongdoing and mismanagement in the Navy supply system. The media has had a field day with the multitude of charges that have been made concerning the U.S.S. *Kitty Hawk.* Many of these have become confused in people's minds as to what might be criminal activity and which are items requiring better management on the part of the Navy. I hope we can clear this up today.

Mr. BENNETT. Now, we will hear from Mr. Bates.

STATEMENT OF HON. JIM BATES, A REPRESENTATIVE FROM CALIFORNIA

Mr. BATES. Thank you, Mr. Chairman.

I would like to thank you and the distinguished subcommittee for providing the opportunity to present the results of my work on the supply and procurement problems aboard the U.S.S. *Kitty Hawk,* which is home ported in Congressman Hunter's district, in San Diego Bay. We share that bay, and I also want to thank him personally for requesting this forum and this subcommittee meeting.

I don't think we can expect a foolproof system where things don't go wrong, particularly one as large and complex as the Navy supply system. But I think we have to work toward a much better system than what we have discovered in our investigations.

The Navy supply system, in the words of the Los Angeles Times, is in chaos. In peacetime, the problems of abuses and waste that have been very expensive can be tolerated. I think that in wartime they would be lethal. My investigation has called into question a

number of Navy commands on both coasts. There is ample evidence, as you indicated earlier, of supply parts being stolen, indictments and trials. I won't dwell on that. I think we have to get to the bottom of whether some of these parts have been diverted from their original purposes.

I think that claims that the system is working properly should be very carefully examined by this subcommittee. It is not a question of simply patching up or explaining, rationalizing certain instances, but I think a total, complete systematic review of the Naval aviation system is in order and it is my understanding that the inspector general is taking a strong look at such a review.

In my accompanying statement, I will try to be as brief as possible. I tried to detail my concerns and I hope that all of you have copies of this written statement that I prepared, which is much more lengthy than——

Mr. BENNETT. Without objection, the entire statement will be put in the record.

Mr. BATES. Thank you, Mr. Chairman.

I have tried to detail as much as I can the results of information supplied to me by Petty Officer Robert Jackson, an auditor aboard the U.S.S. *Kitty Hawk*. He and several others inside the Navy system furnished a vast amount of valuable material on the problems of the Naval supply system and have provided essential insight into the way the system actually works as opposed to the way it should work or is alleged to work.

I think it is essential to note that no automatic Navy system has ever flagged these wrongdoings or acted on behalf of this whistle blower. People outside the system—Customs officers, the FBI, civilian authorities and myself, a number of anonymous sources—have supplied the impetus for this investigation.

During the investigation, I have referred each and every allegation to the House Appropriations Committee, as well as the Department of Defense and the inspector general for appropriate review. There are currently 53 inquiries under study from my office.

During this time Customs, along with the FBI, brought a number of indictments that implicated Navy and civilian personnel in thefts of F-14 spare parts shipped to Iran to maintain the Iranian fleet of aircraft. The Navy has not been able, to my understanding, to pinpoint the source of these parts but recent information points strongly that the U.S.S. *Kitty Hawk* was involved and several other ships and shore stations, including the Naval Air Station, North Island.

The investigation was dramatically interrupted by the departure of the U.S.S. *Kitty Hawk*, making it more difficult for review of these matters. I understand when it returns, some of the investigations internally by the Navy will be completed after 6 months deployment in the Pacific.

During this period, Petty Officer Jackson has been, I think, put under some strain and the media has certainly reported activities of the Navy. I think personally, Robert Jackson has been both praised and maligned through these sources, but I, for one, would like to say that I think we need more Americans like him that will come forward with what they think the problems are and what they think the truth is.

In recent weeks we have been treated to a series of conflicting Navy statements about the extent of the losses aboard the U.S.S. *Kitty Hawk* and I hope today that can be cleared up. The last solid information was that $14 million in fraudulent parts claims existed aboard the ship.

I might also point out that there is a bookkeeping procedure known as "reconciling the differences." When I say $10 million in parts is uncovered, that they were not aware of, it is added to the inventory and another $10 million is lost, those are balanced off and to indicate zero, that all is in order and the books balance, when in fact there is $20 million that could not be accounted for through the supply system. So I would point that out when we try and deal with this $14 million and other figures.

The problems that I have found have been by no means simple ones of theft and tools diverted to personal use. We have the example of the 31 silver bars which were delivered to the U.S.S. *Kitty Hawk* and before they arrived at the command, were diverted. We have statements from individuals on the ship that those bars were cut up and carried off in small pieces. The significance of the $16,000 theft is the Navy's new automated inventory system, which was thoroughly compromised by giving the password to just about everyone remotely connected with the supply system.

While I am on this point—and I think I later referred to it in my oral testimony, but I would like to bring it up—the Air Force supply system was interrupted at Clark Air Force Base in the Philippines by several Filipino employees using the same procedure. They broke into the system, using the code, and the computer and ordered material that had a black market value such as airplane parts. Keeping track of the nonauthorized order, they would intercept the goods and sell them on the black market. Apparently $1.5 million in supplies has been determined to have been diverted and Air Force caught and prosecuted the individual involved.

The U.S.S. *Kitty Hawk* operates in the same sphere of influence in the Philippine area when deployed and it would seem to me there should have been some communication between this problem with the computers and the Air Force were caught and prosecuted and have been resolved, that would have helped them detect or be aware of this current problem. They are uncertain, however, to whom all the parts were sold. They still have the same problem that we have with the U.S.S. *Kitty Hawk*—where did the parts go?

Apparently the diversion of supplies went on for a few years before the Air Force finally caught on to them and I think more indepth information had to be withheld because of obvious reasons of confidentiality. But I think we have yet to get to the bottom of the extensive abuse of this system as it reflects the computerized supply order process.

I have been made aware of some serious problems with salvaging of equipment that is salvaged and then the allegedly damaged goods, which are really not damaged, are sold back to the Defense Department for top dollar. I think that should also be pursued in great depth.

I think there is some suspicion that the espionage ring gained access to the F-14 parts by simply and officially dispatching them from the inventory via a "survey" document. You will have testi-

mony from Petty Officer Jackson as to the forgeries and the blanket filling out of survey forms, and the very loose procedures there that the Navy I understand acknowledges and intends to take corrective action on.

Throughout this I found the Naval Investigative Service has not been responsive to me or to the investigative needs of national security. I think the Naval Investigative Service should be removed from local command influence. Secretary of the Navy John Lehman recently took administrative action to try to strengthen this position. He restructured the chain of command for the Naval Investigative Service and I think obviously we have good reason to be aware of the potential—in any event, I would urge there be a serious review of the Naval Investigative Service, why they were not able to detect these problems. Why is it the FBI, Customs, Petty Officer Jackson, myself and others who had to bring this forward?

I might say in all of the 53 inquiries, and in some which have been not merited being forwarded, that this is a recurring problem: that the Naval Investigative Service seems to do more covering up than uncovering of the problems because of the compromising position the commanding officer is placed in on the local commnd level. His fitness report or his ability to perform his mission may be under criticism.

I think it is very difficult to do. It is much easier to point out these things. It is a very difficult job that you face in developing recommendations that would address so many problems that we found aboard the U.S.S. *Kitty Hawk* and in her related commands. We should start with the following, and I have tried to provide some recommendations that certainly with your experience and more careful understanding of this may not merit adoption, but I will offer them in the hope that there may be some value there.

One. A compartmentalization of sensitive and classified parts and periodic wall-to-wall physical audits of the material.

Two. I think it is obvious that the shore facilities get more thorough auditing than the commands afloat. Regular bookkeeping audits of afloat and independent commands.

Three. The completion of the process by which investigative services are separated completely from command influence. There is solid evidence I think at this point, that the U.S.S. *Kitty Hawk* investigation was compromised in this manner, but the circumstances by which Mr. Jackson was required by the Naval Investigative Service to report to the commanding officer of the ship to request transfer to the Naval Investigative Service facility at North Island indicates to me that adequate protection was not afforded whistle blowers.

Four. A complete reform of the Naval Investigative Service undercover agents system is essential. There were undercover agents aboard the ship. I think it is eloquent evidence that the system did not work. We have also found in detail in a congressional statement the Naval Investigative Service enjoys neither the trust nor respect of fellow services and Navy servicemen.

The most recent spy scandal that rocked the Navy was not discovered by the Naval Investigative Service. The spare parts ring surrounding the F-14 fighter was uncovered by U.S. Customs.

Press reports of how the agencies were unwilling to turn over the results of their investigation to the Naval Investigative Service because they feared the investigation would be blown by Naval Investigative Service.

The severity of these problems demand strong regulative action and I am contemplating introduction of legislation to abolish the Naval Investigative Service and transferring these functions that deal with waste, fraud and abuse to the Navy Inspector General, and the remaining functions to offices not subject to the local command structure. The corrective actions taken by Secretary Lehman as outlined in his August 12 press release are insufficient to correct the problems that have plagued the Naval Investigative Service.

Five. When discoveries of this nature are made the Navy and other services should have immediately put in place a means for physically auditing materials suspected of being in jeopardy. Without this physical audit, items such as those officially surveyed, or diverted to those such as the Iranians, would not be uncovered.

Six. An immediate computer inventory system security procedure must be developed. I would recommend an outside agency or firm be charged with bringing the Navy up to date on computer security procedures. I have noted in my investigation that if it can be done, it probably should be done. We should not underestimate the needs and cunning of our adversaries. In this the Iranians, according to all sources, were a pathetically inept lot, yet they were able to successfully penetrate a sophisticated inventory system and as a result, to provide Iran with spare parts to keep their F.14's in the air.

Seven. A complete revision of the accountability for parts shipments. There is a magic moment in the supply system where it is neither in the hands of the recipient command nor is it any longer in control of supply command. This moment is prolonged in the Navy with a process which, upon sending, the supply command relinquishes responsibility. The recipient does not assume responsibility for the material until they actually acknowledge receipt. Under this system many problems are needlessly fostered.

Eight. A complete reform of the evaluation system within the Navy. Both Miramar Naval Air Station and the U.S.S. *Kitty Hawk* received high marks while accumulating the worst record. At Miramar, for example, the individual ratings averaged 10 percent higher than those for the entire Navy, and yet they were plagued with these supply problems. In fact, one key person in the supply system received a letter of reprimand, along with an outstanding report on his performance at the same time.

I think we are aware that the U.S.S. *Kitty Hawk* is alleged to be one of the best ships that we have with respect to its operation and readiness and yet it has the kind of problems, as have been demonstrated, which indicate that those other facilities and ships may be in worse condition.

I would like to thank you for your willingness to hold this hearing. I believe we can correct the problems with procurement and supply as noted here. I think we have unfortunately had to dwell on the negative side of things today, but I think the benefit for the country, the Navy, and all of us will be in our ability to admit and correct those shortcomings.

So I would just thank you for allowing me to give this testimony, and also to join you on the panel. Thank you.

PREPARED STATEMENT OF HON. JIM BATES

INTRODUCTION

I would like to thank the Chairman and Members of this distinguished Subcommittee for providing me the opportunity to discuss with you the history and the results of my investigation of supply and procurement problems aboard the U.S.S. *Kitty Hawk*, which is homeported in my Congressional District.

The Naval Supply System, in the words of the Los Angeles Times, is the "soft underbelly" of our defenses. In peacetime the problems, abuses and waste have been very expensive; in wartime they could be lethal. My investigation has called into question a number of Navy commands. There is ample evidence of espionage and and the diversion of important and critical aircraft space parts to our enemy.

I am confident that the legislative remedies that this Subcommittee can recommend will be sufficient to correct many of the problems that we have observed. The Department of Defense, the U.S. Customs Department, the Justice Department and the General Accounting Office are looking into the problems we have found and their recommendations, coupled with ours, can be the foundation for effective legislation.

I know the Chairman feels that hearings to no legislative purpose are a waste of time, and that is why I am tailoring my remarks specifically to that purpose. I believe that we can gain concrete answers to many of the as yet unanswered questions and make significant and effective legislative changes to the way our Navy Supply System does business that will make it both more effective and more resistant to unauthorized tamperings.

HISTORY

In early June of this year I was approached by a sailor who was temporarily attached to the U.S.S. *Kitty Hawk*. Petty Officer Robert Jackson had heard of my activities in relation to procurement and supply problems at the Naval Air Station, Miramar. He believed that I could provide the help that he needed.

Petty Officer Jackson told me that he had been working with the Naval Investigative Service (NIS) while acting as an auditor for the *Kitty Hawk*. He had reported a number of accounting and supply violations to higher commands, and not gaining an ear, had gone to the NIS. I was able to confirm Jackson's activities on behalf of the Navy and NIS, and they informed me that they gave substantial weight to his charges, and were investigating further.

Jackson, however, could not wait for the investigation to continue at this leisurely pace. Jackson had approached me on Wednesday, and the ship was due for a week-long deployment on Saturday. His involvement with the investigators had leaked out and he had threatened with physical harm if he made the deployment and released the information. The threat was particularly realistic in that, up to this point, his was the only testimony that could link individuals to the wrongdoing aboard the *Kitty Hawk*. Until his testimony was fully taken and corroborated, his life was endangered.

At our first meeting Petty Officer Jackson asked if I could assist in his reassignment off the ship during this short deployment and to help him make this testimony before the U.S. Navy. I was able to assist him in this. At this point it is essential to note that no automatic Navy system had flagged these wrongdoings or was actively acting on behalf of this whistle-blower.

I immediately began to follow-up on the details of the allegations that Mr. Jackson had made. I was also able to prevent once more his attempted transfer to a place where he would have been in further danger. Again, the Navy did not make these arrangements and my efforts to protect him from reprisals were oftentimes accomplished in spite of the Navy.

My investigation continued and elaborated upon the supply and procurement problems. I referred each and every allegation to the House of Representatives and to the Department of Defense for their review. During this time Customs brought down a number of indictments that implicated Navy and civilian personnel in thefts in Navy commands of F-14 spare parts that were shipped to Iran to maintain their fleet of aircraft. The Navy has not been able to identify the source of these parts, but recent information points strongly to the *Kitty Hawk* and several other ships and shore stations as being the original source.

My investigation and that of the Navy was dramatically interrupted by the departure of the *Kitty Hawk* and its records for a six-month deployment in the Pacific. I attempted, to no avail, to insure that records were sealed and key personnel were retained.

In recent weeks we have been treated to a series of conflicting Navy statements about the extent of the losses aboard the *Kitty Hawk* (the last solid information was that $14 million in fraudulent parts claims existed aboard the ship), where the parts actually came from and what actions that the Navy was taking to curtail the current thefts and to prevent future ones.

SUPPLY AND PROCUREMENT PROBLEMS

The problems that I have found have been by no means simple ones of theft and tools diverted to personal use. Jackson did provide, for example, evidence of an abandoned Navy investigation where 31 silver bars had been fraudulently delivered to the *Kitty Hawk* and purloined before they arrived at their destination. The significance this $16,000 theft is that the Navy's new, computerized inventory system was compromised in the process. According to later Navy testimony the access "passwords" had been widely disseminated, rather than tightly controlled.

We have yet to learn how extensive this abuse of the system was, but from a practical standpoint, we can imagine that the system would automatically "flag" a missing shipment, inaccurate shipment or a shipment of sensitive material going to an unauthorized recipient. Unfortunately, none of these happened. The silver bars, though most still missing, were uncovered in a comedy of errors by U.S. Customs agents and in a civilian drug arrest. Internal systems are inadequate to deal with such sophisticated thefts.

The suspicion is there, nonetheless, that at some point these thefts or misappropriations will be discovered, at least for major spare parts. Here again, we are wrong. A system of "surveys" exists aboard Navy commands where the commanding officer, his subordinates and at least in the case of the *Kitty Hawk*, a wide variety of personnel, were easily able to officially certify through these "surveys" that the items were either in inventory somewhere or were lost in the regular course of business. So far they've found some $14 million on the *Kitty Hawk* alone of fraudulent survey documents.

This is how items are made to officially disappear. Admiral Tuttle informed me recently that when he commanded a carrier, he personally signed all survey documents. That wasn't the case aboard this ship, and perhaps if it were, fewer of these problems would have occurred.

It is also strongly suspected that this is how the espionage ring gained access to F-14 parts—they simply, officially, disappeared from inventory. No outcry was raised, and the Navy was never independently aware of the ongoing thefts. Other civilian authorities discovered and investigated these activities. Throughout all this I have found that the naval investigation services have not been responsive to either Congress or me or, most importantly, to the investigative needs of national security. After a recommendation by me that the NIS be removed from local command influence, Secretary John Lehman took this action recently. He dramatically restructured the chain of command for the Naval Investigative Service. I don't believe that this, easily reversable administrative action is sufficient and I have proposed a legislative remedy that would address the problem.

RECOMMENDATIONS

It is not an easy matter to make a single, legislative recommendation that would address the many problems I have found aboard the *Kitty Hawk* and her sister commands. I would point to the following recommendations as being appropriate for inclusion in general supply and procurement legislation:

1. A compartmentalization of sensitive and classified parts and periodic, "wall to wall" audits of physical materials.

2. Regular audits of afloat commands are essential. Since these commands are the ones most likely to undergo operational stresses and pressures, it is essential that they be periodically examined for procedures and records that may have been given less than the necessary attention during operational periods;

3. The completion of the process by which investigative services are separated completely from command influence. There is some solid evidence at this point that the *Kitty Hawk* investigation was compromised in this manner, but the circumstances by which Mr. Jackson was required by the NIS to report to the Commanding Officer of the ship to request transfer to the NIS facility at North Island indicates to me that adequate protections were not afforded whistle-blowers.

4. One of the most significant features of my investigation and my efforts in this situation was that neither the Navy nor the Naval Investigative Service discovered these problems. This, while NIS agents are regularly attached to commands such as the *Kitty Hawk*. There were undercover agents aboard the ship. There is eloquent evidence that the system did not work and that a complete revamping of the system is essential.

It is interesting to note that other government investigative services such as the Federal Bureau of Investigation and the U.S. Customs Service do not rely upon the Naval Investigative Service for either investigative support or for confidences they might share with them. I have attached an article from the Los Angeles Times that details these problems with the Service.

The severity of these last two problems that I have listed demands strong legislative action. I am contemplating the introduction of legislation to abolish the Naval Investigative Service, transferring those functions that deal with waste, fraud, and abuse to the Navy Inspector General and the remaining functions to offices not subject to the local command structure. The corrective actions taken by Secretary Lehman as outlined in his August 12th press release are insufficient to correct the problems that have plagued the NIS.

5. When discoveries of this nature are made the Navy and other services should have immediately put in place a means for physically auditing materials suspected of being in jeopardy. Without this physical audit, items such as those officially surveyed, or diverted to those such as the Iranians would not be uncovered.

6. An immediate automated inventory system security procedure must be instituted. I would strongly recommend that an outside agency or firm be charged with bringing the Navy up to date on computer security procedures. I have noted in my investigation that if it can be done, it probaby has been done. We should not underestimate the needs and cunning of our adversaries. In this the Iranians, according to all sources, were a pathetically inept lot, yet they were able to successfully penetrate a sophisticated inventory system and as a result to provide Iran with spare parts to keep their F-14s in the air.

7. There is a magic "moment" in the supply system where it is neither in the hands of the recipient command nor is it any longer in the control of the supplying command. This moment is prolonged in the Navy with a process by which, upon sending, the supply command relinquishes responsibility. The recipient does not assume responsibility for the material until they actually acknowledge receipt. Under this system many problems are needlessly fostered.

8. A complete re-vamping of the evaluation system within the Navy. Both Miramar Naval Air Station and the USS *Kitty Hawk* received high marks while accumulating the worst record. It is interesting to note that—during a relatively short time period—a Supply Officer at Maramar had his personnel file amended to include both a recommendation and a reprimand. This system must be changed if it is to be of any value.

ACKNOWLEDGEMENTS

I would like to thank this Subcommittee for its willingness to hold this hearing. I believe that we can correct the problems with procurement and supply that I have noted here.

I would also like to congratulate Petty Officer Robert Jackson for his courage and his persistence in bringing these problem forward to me. Without his efforts, little of this would have been known.

I would ask that the Subcommittee hold the record open for five legislative days.

I would be happy to answer any questions that the Committee may have to ask.

ADDITIONAL MATERIALS ATTACHED FOR REFERENCE

1. *Kitty Hawk* departs under cloud for six-month deployment.
2. Military Supply system: a security risk?
3. Theft of Navy Parts: tale with a disturbing moral.
4. Letter from Mr. McPhee regarding the Navy Investigative Service.

[Attachment 1]

[From the Los Angeles Times, Sept. 1, 1985]

Accounts Found To Be $2 Million in the Red—Aircraft Carrier "Kitty Hawk" Sailing in Troubled Financial Seas

[By Glenn F. Bunting]

San Diego.—Imagine a company with 5,000 employees and a $300-million inventory that uses pads and pencils to keep track of purchases, fails to balance its books each month and acts as though it has a fat bank account when it is really hundreds of thousands of dollars in the red.

Now you can understand why the aircraft carrier *Kitty Hawk* has troubles these days.

Shaken by revelations that its supply system was secretly used to funnel prohibited F-14 fighter parts to agents of Iran, and now facing questions raised by a June internal audit, the San Diego-based carrier has become a case study in the problems haunting the military supply system as a whole. Those problems raise disturbing questions about the system's vulnerability to unauthorized penetration.

SOME IN PENCIL, OTHERS NOT AT ALL

The audit of the reserve account of the carrier's commanding officer by Petty Officer 2nd Class Robert Jackson found dozens of purchases written in pencil, others not recorded at all. Although the captain's purchasing records showed a remaining balance of $793,493, auditors found the account $141,556 in the hole. And that is just in the captain's books; accounts for the whole vessel were found to be at least $2 million in the red, according to Jackson's audit.

The audit also turned up $2.4 million in supplies that were received by the *Kitty Hawk* but not billed to the ship's internal accounting system.

To the Navy's top brass, such discoveries have not diminished the *Kitty Hawk*'s standing. Last spring it won the coveted Navy "E" award for running the most efficient supply operation of six aircraft carriers in the Pacific Fleet over an 18-month period.

Others take a more critical view.

Navy sources told The Times that disarray in the *Kitty Hawk*'s bookkeeping system stems in part from widely varying accounting practices within the ship's 90 supply divisions; some keep official ledgers, some scribbled figures in green note pads and a few cannot produce any records at all, the sources said.

"How well these departments keep their books probably reflects the whole state of bookkeeping on the ship itself. At a time like this, people who don't ensure good record keeping . . . send a bad signal of poor management and a careless attitude," said a Navy commander in San Diego.

Bookkeeping irregularities, persisting despite previous warnings to the ship's accountants to clean up the records, reflect a "total lack of command supervision," said Eugene R. Carroll, deputy director of the Defense Information Institute in Washington and a retired rear admiral who once served as the *Kitty Hawk*'s executive officer.

"To have complete line items missing is unimaginable," said Carroll, who had 37 years in the Navy, including service as commanding officer of the carrier *Midway*. "That shouldn't happen more than once."

The commander of the *Kitty Hawk*, Capt. Phillip R. Wood, has refused to be interviewed by The Times. Cmdr. Tom Jurkowsky said that Wood would have no comment on his division's purchasing records because they are being reviewed by Navy investigators.

The condition of the purchasing records is just one example of a wide variety of *Kitty Hawk* supply problems revealed in recent months. A January drug raid uncovered evidence that the ship's supply system was used to steal 31 silver ingots worth about $1,000 apiece. In July, a *Kitty Hawk* storekeeper was among seven persons charged in the Iran arms case.

1,100 PAGES OF DOCUMENTS

Navy investigators also are reviewing allegations by Jackson, a financial auditor on the *Kitty Hawk* for 21 months, who turned over 1,100 pages of documents detailing charges of waste and fraud. In a statement prepared for Congress, Jackson said the ship's books for fiscal year 1983 showed supply expenditures of $10 million when, in fact, $12 million had been spent.

A recent audit found that the *Kitty Hawk* could not account for spare parts totaling $14 million—a substantial amount, though it compares favorably with the average of $20 million in parts listed as missing aboard the Navy's 13 deployable aircraft carriers, according to figures released by Sen. Pete Wilson.

Navy officials, defending the *Kitty Hawk* while trying to find ways to improve inventory control, stressed that monitoring the movement of missile system parts on an aircraft carrier is not the same as keeping tabs on lawn mowers at Montgomery Wards.

"Applying normal business principles to the military can only go so far," one veteran Navy officer in Washington said. "Combat effectiveness and cost effectiveness are not the same. . . . The types of environments are not the same."

[Attachment 2]

[From the Los Angeles Times, Sunday Sept. 1, 1985]

MILITARY SUPPLY SYSTEM: A SECURITY RISK? IMMENSE INVENTORY COULD BE SOFT UNDERBELLY OF DEFENSE STRUCTURE

[By Gaylord Shaw and Glenn F. Bunting]

WASHINGTON.—In drab depots and windowless warehouses, in the dark holds of ships and on the back lots of bases at home and abroad, America's military supply system is swollen with stockpiles of 4.4 million different types of weapons, equipment and spare parts worth a staggering $132 billion.

And this inventory—embodying some of the nation's most sophisticated and sensitive technology—has quadrupled in size and scope during the last five years as President Reagan rebuilt the nation's arsenal.

Even as it provides sinew for new military power, however, a Times investigation has found the supply system so vulnerable to penetration by thieves and foreign agents, so troubled with sloppy bookkeeping, inadequate controls and outmoded computers, that dark questions arise:

Is the supply system the soft underbelly of national security, an inadequately guarded back door to the wealth of advanced technology on which America's military might largely depends?

Equally ominous, do thefts of such prosaic military hardware as booby traps and small missiles suggest the nation's own arsenal could become a supply depot for terrorists and others?

Or, in time of crisis, are the Pentagon's endless warehouses and storage yards such an unmanageable morass that they could hamper the armed forces ability to respond?

The answers to these questions are not entirely reassuring.

Senior Pentagon and military officials insist that classified weapons and parts are well protected and say they see no evidence of stepped-up Soviet efforts to seek military secrets through the supply system. However, high-ranking officials admit that they were startled by recent thefts of advanced military parts and equipment that the Pentagon had never thought it necessary to protect. And the evidence of theft, equipment losses and hopelessly muddled records in the supply system is so overwhelming that no one can say with certainty what has or has not been compromised.

Thus, although top Pentagon officials emphazise that vigorous efforts are underway to correct the problems, there is uneasiness in the middle echelons of civilian and uniformed management at the Defense Department and at military installations across the country, as well as in Congress and the cloistered offices of Washington think tanks. There is a seed of fear that unexpected vulnerabilities may exist, both to outside penetration and the system's own internal functioning.

Concern is also voiced that many of the problems are too ingrained and to intractable to be corrected in this decade.

The Times investigation—based on scores of interviews and examination of hundreds of documents—has found an interlocking web of problems.

Supply system managers were completely surprised when it was discovered that Iranian agents had penetrated military security as part of a multibillion-dollar effort to obtain U.S. equipment for Iran's war against Iraq.

Theft of missile and aircraft parts had never been considered a threat. In the past, Pentagon supply managers seemed more worried about someone stealing candy bars than inertial guidance systems for the Ayatollah Ruhollah Khomeini's U.S.-made warplanes.

"It was a threat that we had not recognized before," said James H. Reay, deputy director of supply management at the Pentagon. "There's no doubt we were somewhat behind the power curve. . . . I think we're catching up fast."

Thefts of components for weapons systems were partially masked by huge "inventory adjustments" made routinely by the Pentagon.

Last fiscal year, the five arms of the Defense Department's supply system (Army, Air Force, Navy, Marines and Defense Logistics Agency) reported losing or misplacing items valued at more than $1 billion—$1,021,876,000, to be more precise. On the other hand, they also reported finding $1,013,697,000 in equipment, parts and supplies they did not know they had.

Thus, officials point with pride to a net loss of only $7 million—rather than viewing the more than $2 billion in annual adjustments as a sign of what one internal audit report called "total turbulence in inventory records."

Military supply operations depend on computers so outdated, ungainly and error-prone that, one expert said, "It is little wonder the supply system is a mess."

The 1960's-era computers are older than some of the persons running them and "have so many Band-Aids and have been patched up so many times that no one knows why things go wrong," another investigator said.

One Navy officer offered this analogy: "If an airline had our system and you were a passenger who bought a ticket and then wanted to confirm you reservation using to computer, you would have to wait in line at the airport for three days."

The system's computer weaknesses offer ample opportunities for criminal activity by insiders. "It is entirely possible for an adroit and knowledgeable storekeeper to enter demands into the system, obtain materials and get shipping orders," one retired admiral said. "Ultimately, after the part has been shipped, you can destroy all records in the transaction."

The problems with supply system computers were documented more than a decade ago, but only now is the Pentagon vigorously pursuing a plan to replace them. The new computer system's cost: $2 billion. The target date for completion: 1991.

Security surrounding the shipment of all but the most sensitive and classified components is surprisingly loose, largely because there are so many shipments and because the military operates on an honor system.

"We begin with the premise that the guy in the Navy is honest, trustworthy and responsible," said one commodore.

Thus, cars and trucks leaving supply depots are rarely stopped even for random searches, and sailors on at least one carrier are routinely issued keys to some of the carrier's 650 supply bays without having to show identification, one former auditor said.

"With the volume we're doing, we don't check orders every time" to make certain the shipments get to the authorized destination, added Cmdr. Dan Stone, a San Diego-based inventory control officer.

Thus, although private parcel services like UPS require a signature for each package they deliver, military supply centers throughout the world every day deliver tens of thousands of orders worth millions of dollars to warehouses, piers, ships and installations without requiring anyone to sign for receipt of the supplies, parts or equipment.

Parts and supplies ranging from aircraft tachometers to toilet paper regularly change hands among Navy personnel in an unauthorized but universally condoned bartering system known as "cumshaw." Dating back decades and named after the Chinese word *kam sia*, meaning grateful thanks, the transactions include almost any deal imaginable, from the commanders of two fighter squadrons swapping aircraft parts to keep their planes aloft to a cook bribing a supply officer with a case of shrimp to get a highly valued leather flight jacket.

"Cumshaw happens all the time," said a Navy officer in San Diego who asked not to be identified. "It goes back years. It's a tradition. It's a fact of life in the Navy . . . one of those things that makes the supply system out of balance."

Paradoxically, operations of the supply system have been strained and its weaknesses have been magnified by Administration pressures for military readiness—for making certain that U.S. warplanes, missiles, ships and tanks are prepared for combat.

Prodded by their civilian bosses to emphasize readiness and eliminate paper work, the military services routinely allow officers and even supply clerks to go outside normal channels to acquire a variety of equipment of supplies under blanket purchase agreements with private vendors.

For example, one San Diego company that sells furniture, filing cabinets, carpeting and similar items has an agreement under which any of 183 Navy personnel—

ranging from the commander of the aircraft carrier *Kitty Hawk* to a storekeeper at the Naval Recruiting District—can order materials costing up to $10,000 by telephone without a second party verifying that the purchase is legitimate or that competitive bids were sought.

"That's where the abuse comes from," said the general manager of the firm, who asked not to be identified for fear of losing Navy business. "There's too many damn fingers in the pot. It's like giving a checkbook to everybody in the office and telling them to go rampant."

The same pressures for readiness have been cited in the recent spate of military procurement scandals but, unlike the headlines and congressional investigations generated by disclosures of excessive prices paid to manufacturers, the shadow of scandal within the Pentagon's own supply system has gone largely unnoticed.

And, unlike the official hand-wringing over former Navy officer John A. Walker Jr.'s alleged family spy ring, scant attention has been paid to the real and potential breaches of security that have resulted from the supply system's weaknesses.

Six weeks ago, authorities in San Diego accused seven persons—including two enlisted men in the Navy's supply system and a civilian employee of a Navy warehouse—of conspiring with an Iranian agent to steal from U.S. military stockpiles an assortment of components for some of the Free World's most sophisticated combat weaponry, including Phoenix missiles and F-14 jet fighters.

HOSTILE COUNTRY

Indictments and government documents charge that the equipment and spare parts were illegally diverted to the Ayatollah's regime. Iran has been officially classified as a hostile country since 1979, when it took over the American Embassy in Tehran and held most of its occupants hostage until 1981. That designation forbids it from receiving U.S. military materiel.

More recently a lieutenant colonel—a missile expert assigned to the Army Materiel Command at the Pentagon—was indicted along with six other persons for allegedly joining in a foiled conspiracy to sell thousands of the West's most advanced missiles to Iran for more than $140 million.

Serious as these cases may sound, they are being prosecuted by the Justice Department as larceny, smuggling, fraud or customs violations—not as espionage.

Defense Secretary Caspar W. Weinberger has shrugged off questions about penetration of the supply system, saying: "You are going to have spies and thieves no matter what we do."

And Adm. James D. Watkins, chief of naval operations, has dismissed media accounts of missing equipment and inventory problems aboard the *Kitty Hawk* as "over-bloated and unbalanced criticism of relative trivia."

Certainly, problems in the military supply system are far from new. As every schoolchild knows, Gen. George Washington has severe difficulties providing even the basic necessities of life for his Revolutionary War soldiers at Valley Forge.

Almost two centuries later, however, the nature of the problem has reversed itself. Gone are the shortages of shoes, food and warm clothing that brought suffering to the Continental Army. Today, the military supply system is so overwhelmed by the sheer volume of parts and equipment that it cannot keep track of what it is responsible for, much less ensure that none of it falls into unfriendly hands. In 1965, for instance, auditors found errors in nearly one-third of the Navy's stock records.

During the Vietnam War, the General Accounting Office repeatedly found substantial differences between stock-record balances and actual quantities on hand throughout the military supply system.

As an example, one officer recalled that a Navy aircraft carrier operating off Vietnam could not seem to maintain spare parts for a crucial but fragile avionics component of its jet fighters. Under harsh combat conditions, the component needed frequent replacement. But no matter how often the vessel stocked up in port, once back at sea, the replacement units always turned up missing.

The explanation chagrined investigators eventually learned, was what the officer called "just plain ornery criminal behavior." A Navy technician, fed up with the repetitive repairs, was calmly requisitioning the replacement parts and pitching them overboard—while inattentive supply personnel remained oblivious to what was going on.

Such deficiencies were spotlighted by congressional hearings in the 1970s; by 1982, a House committee declared that "the problem has not been corrected and, if anything, has deteriorated."

SUPPLY SLOPPINESS

That year, a study by the House subcommittee on readiness found that six U.S. Navy supply centers lost $330 million in goods during fiscal 1981. At the largest facility, Norfolk Naval Supply Center, losses totaled $174 million, an increase of 285% from the previous year. Missing items included 7,000 pounds of lobster, 12,000 pounds of coffee, a $125,000 computer and six pallets of nuclear fittings valued at $500,000.

By 1983, the GAO weighed in again. The Navy was making progress in straightening out its supply system, it said, but "the magnitude and impact of the inventory accuracy problem in the Army, Air Force and DLA (Defense Logistics Agency) are much greater than recognized." Records of these three, it added, "significantly understate the true extent of their inventory record inaccuracies."

Beyond the columns of statistics in the auditor's reports are instances of supply system sloppiness affecting national defense.

The GAO cited, for example, the case of a transducer, a $677 part that controls the air intake for the engines of the $100-million D-5A, the world's largest transport plane. Without the part, the huge plane cannot fly. Without the plane, the Air Force cannot meet critical airlift needs in the event of a crisis.

At the San Antonio Air Logistics Center, the GAO said, clerks recorded the receipt of one shipment of 31 transducers four times. Thus records indicated 124 transducers were on the center's shelves when only 31 were actually on hand. The clerical error went undetected for two years—until high-priority requisitions began going unfilled. It took 13 months for the manufacturer to replenish the Air Force stockpiles.

"Thus," the GAO said, "the shortage of the transducer prolonged the repair of inoperable engines and potentially degraded the mission capability of C-5A aircraft for over a year."

Such reports by auditors and investigators spurred a flurry of activity by the Reagan Administration, which placed the highest priority on military readiness. Pentagon committees and working groups churned out stacks of improvement and performance standards.

Still, a few months ago, Rep. Dan Daniel, (D-Va.), chairman of the House Armed Services subcommittee on readiness, found that not much had changed.

Although the Navy was making progress, he wrote in a scathing March 14 letter to Pentagon officials, "the Army, Air Force and DLA have not implemented corrective actions agreed to by the military departments. In effect, improper and ineffective practices still exist and continue to plague supply operations."

It has taken the shock of discovering the diversion of parts to Iran to jolt the Pentagon into taking a hard new look at the security of its supply system.

Although the FBI, Customs Service and other investigative agencies had known for at least four years that the Ayatollah's agents were desperately seeking components for the U.S.-made weapons his regime inherited when the Shah of Iran fell, Defense Department officials were surprised that the military supply system was a target of Iranian penetration.

"It's like being hit in the head with 2-by-4s, the shocks of seeing our supply system dragged through the paper," said Reay, the Pentagon's deputy director for supply management.

"Even though we hate to see it, it has had some positive benefits," such as tighter computer security over parts that, although not classified, could still aid Iran and other enemies.

DIVERSION UNDETECTED

He now sees how it was possible for the diversion of materiel to Iran to remain undetected for several years, he said.

"Previously, the supply system was oriented toward protecting classified . . . and pilferable items—Army jackets, candy bars, pocket knives, screwdrivers, things which are salable and usable on the outside market."

Today, he said, "We've got a situation that we've never had before, in that things like F-14 parts, Phoenix missile parts had no real appeal for criminals up until the last few years—because what would you do with it if you stole it? There's no market for it. Who would buy an F-14 guidance set unless he had an F-14? Well, now, lo and behold, we have . . . a criminal element that has F-14s and needs" spare parts.

The Iranians "have literally put out shopping lists . . . to the illegal arms merchants around the world, saying: 'I want these parts, here's what they are by stock number, here's the description and I'm willing to pay anything for them.' "

"The temptation," Reay said, is overwhelming for "people who are ship's storekeepers, warehousemen, who obviously are not in high-income brackets."

In a nearby Pentagon office, Maurice Schriber, a deputy assistant secretary of defense, has spent much of the last two years wrestling with the embarrassing "horror stories" about procurement of spare parts--$600 for an airplane ashtray, $700 for a pair of pliers, $900 for a toilet seat.

Now, he, too, is immersed in finding out why the military establishment, besides having paid too much for some spare parts, allowed other, more sensitive parts to be stolen from its supply system—and what can be done about the problem.

"I've looked at several systems in the private sector," he said, "and you can only go so far with systems and procedures and policies, and then you've got people. You've got a trade-off that you always weigh in the development of a system: How far do I go to make that 100% fail safe so someone can't get in and divert supplies.

On the other side of the country, Peter K. Nunez, the U.S. attorney in San Diego who is prosecuting those charged with stealing parts for Iran, put his finger on the larger, even more disturbing problem: "If these guys could do what they did, what is to prevent someone else from doing it?"

Among some Armed Forces officers, such concerns are overshadowed by a feeling of being whipsawed. One recent morning at the Pentagon, the measured tone of a Navy officer's voice barely concealed the frustration welling up inside him.

"In the 1970s," he said, "we couldn't get parts for our planes or ships. It was this time of austerity. We were being judged on readiness, but no one was helping us to be ready. We had to bend the rules so we could fly or sail. Everybody bent the rules. A whole generation of middle managers bent the rules. If you needed six of something, you'd order 10 so you'd have one if it broke and you were out in the middle of the Indian Ocean.

"Then there was this great push from '82 to '84. The political appointees were pushing to get the readiness statistics up, and the spares started going to the field. All of a sudden we had what we needed, more than what we needed, but the ethic still was to bend the rules. . . .

"Then came all this Johnny-come-lately purity and piety in Washington. You push me first to be ready and now you are after me for not crossing my t's and dotting all my i's. What in the hell is going on?"

And beyond the difficulty of balancing sometimes-conflicting goals, the sheer enormity of the U.S. military supply system suggests the human capacity to create may transcend the human capacity to control.

In San Diego, for instance, seven charcoal-colored metal buildings crammed with aviation parts stretch alongside the 11th and 12th fairways of the Sea 'n' Air golf course at North Island Naval Air Station in San Diego. Each building is the size of two football fields, each filled with wooden crates of parts stacked several stories high. It takes 287 civilian employees driving 47 forklifts just to move 35,000 parts in and out each month.

Larger items are stored outside—aircraft engines and helicopter blades, for instance—in metal boxes. Color-coded tags and stickers denote the importance of the part and the day it arrived. If the tag is green, the part came in on a Friday. If the sticker is pink, the part is classified.

OTHER SUPPLY CENTERS

Big as they are, the North Island warehouses are but seven of 23 buildings in and around San Diego devoted to storing naval supplies. Moreover, San Diego is only one of the 10 major naval supply centers in this country and abroad.

And the entire naval supply system, with an inventory of $19.5-billion worth of spare and repair parts has less than one-third of the Pentagon's total stockpiles.

The heart of this mammoth military supply system is the computer. And, like a critically ill human with heart disease, the supply system's computer is pumping slowly and erratically, barely able to meet unceasing demands placed upon it.

In San Diego, one Navy's officer sighed with exasperation when he described his service's supply system computer. "On a scale of 100," he said, "it ranks as about a 2 or 3 in sophistication. It's hard to manage a system and have good accountability with an archaic computer that's running a software package with a 1960s intellect."

If the clumsiness of the Pentagon's supply computers makes inventory controls difficult, there is also reason to doubt their security. While Pentagon spokesmen express confidence that the system is protected against penetration by outside "hackers," they acknowledge vulnerability to insiders.

One example is the case of the 31 purloined silver bars.

Five times between July and September, 1983, someone aboard the *Kitty Hawk* ordered batches of the 10-pound ingots, each worth about $1,000, by typing the 13-digit military national stock number into a computer console aboard the carrier.

The theft of silver bars—discovered purely by accident—involves no direct threat to national security. However, the ease with which so striking a theft was pulled off raises uncomfortable questions about what else may be slipping away undetected.

Navy technicians use silver bars to electroplate parts, but that procedure is never performed aboard aircraft carriers. Because the computerized orders use only codes of numbers and letters, not the actual description of the requisitioned item, no one along the supply chain asked why an aircraft carrier was ordering silver bars.

Although Navy supply computers can be programmed to monitor unauthorized requests and to raise a red flag before these orders are filled, no such safeguards were plugged into the system governing silver bars when the five batches were ordered.

Theft from the military supply system is not uncommon.

In fact, when the FBI set up a "sting" operation at Camp Pendleton to buy stolen items, "there were so many Marines who wanted to sell us stolen gear that they were literally banging down our door," said FBI Special Agent John M. Kelso Jr. "When we wouldn't answer, they would pound on the door and say, 'Hey, we know you are in there! Open up! We've got another load to sell you.' "

"The military doesn't know how much of its equipment is actually missing," Kelso said. "This is as serious a rip-off of the government as the $5 wrench that private contractors charge $500 for. But it's worse than the $5 wrench deal because, in this case, the government does not know how badly it's getting ripped off."

In North Carolina last September, 29 soldiers and businessmen were indicted for pilfering millions of dollars in equipment from the Army's Ft. Bragg, the Marines' Camp Lejeune and from two naval air stations. Among the items recovered were ammunition, booby traps and 400 flak jackets.

"The military was as frustrated as we were in trying to plug their leaks," said Robert L. Pence, special agent in charge of the FBI's Charlotte office. "They almost all agreed that they just can't control the problem."

The potential threat that the porousness of the Pentagon's supply system poses to the world was underlined by an undercover agent in the state of Washington last year, who "purchased an anti-tank rocket from a biker who was going to use it to (rob) an armored car," according to a sheriff's deputy. "The biker said he got it from Ft. Lewis"—the Army's base near Tacoma.

To avoid such potentially catastrophic problems, the Pentagon has instituted special safeguards that should prevent the theft of missiles or classified components for warplanes, according to several officers.

"We have plenty of checks on classified parts and materials," one officer said. "We do it manually, not just depending on the computer."

However, tens of thousands of sensitive parts are unclassified. For example, of all the parts used in the F-14 fighter, only three are classified, according to Capt. Ed Straw of the Naval Supply Command. Only 28 of the thousands of parts in the Phoenix missile system—the Navy's premier shield against air attacks on aircraft carriers-are classified.

Thus, Straw could announce weeks after the Iranian theft-and-diversion ring was disclosed that "we've now completed our inventories and audits of those classified items on both the F-14 and Phoenix and we have no losses . . . so that's good news."

Not such good news, though, are questions about whether the supply system is vulnerable to penetration by terrorists or agents for the Soviet Union.

At the Pentagon, supply officer Reay said investigators and policy-makers have analyzed the possibility of the Soviet trying to tap into the supply system to gain parts or entire weapons systems rather than simply plans or blueprints for those weapons.

"We have seen really no indication of an increased Soviet activity," he said. "The Soviet presence is there. It's always there. And we emphasize particularly the protection of classified material in the supply system.

"And I frankly think that our checks in the area of Soviet interest in the supply system are pretty good."

A less sanguine view was expressed by Customs Commissioner William von Raab, whose agents have successfully penetrated several of the rings of thieves and smugglers run by Iran. Von Raab is especially disturbed by Iranian agents' efforts to acquire complete missiles.

After the Pentagon missile expert and other would-be smugglers were indicted Aug. 1, Von Raab said: "If we had lost a total missile system to Iran, there's no telling where those missiles would show up. It certainly is the kind of equipment

that you could easily use to pop an airplane down—or launch into one of our embassies."

The Iranians, Von Raab said, "have shown themselves not only willing but ready to do that."

In a subsequent interview, the commissioner was asked to assess the potential vulnerability of the supply system.

"It's a huge logistics operation, and any operation that size will . . . at times show some vulnerability," he said. "But I wouldn't characterize it as vulnerable in the sense that it's sort of an open door for people to come in and take arms.

"I think that the cases . . . show that people will go after it, but at the same time I think what's resulted from these cases has been an increased level of vigilance on the part of the military. Any system has to be regarded as vulnerable. It's just a question of how vulnerable."

TWO MEASURES OF THE MILITARY SUPPLY SYSTEM—FISCAL YEAR 1984

[In millions of dollars]

	Army	Navy	Air Force	Marines	Defense Logistics Agency	DOD total
Value of inventory of spare and repair parts:						
Average inventory	$33,383.628	$18,762.009	$19,662.246	$1,585.478	$7,080.827	80,474.188
Inventory, Gains	309.824	282.671	232.974	10.703	177.575	1,013.697
Adjustments: Losses	396.788	237.617	213.524	9.844	164.103	1,021.876
Gross adjustments	706.612	520.288	446.498	20.547	341.628	2,035.573
Orders processed—and unfilled:						
Number of material requisition orders processed	3,901,208	14,523,208	7,101,091	97,375	18,026,824	43,649,706
Number of orders denied because part was out of stock, could not be located, or records were inadequate	34,107	93,995	47,986	1,209	121,538	298,835

Source: Defense Department.

[Attachment 3]

[From the Los Angeles Times, Sept. 2, 1985]

SUPPLY SYSTEM EASILY PENETRATED—THEFT OF NAVY PARTS: TALE WITH A DISTURBING MORAL

[By Ralph Frammolino]

SAN DIEGO.—For Pedro Quito, a partly deaf, 60-year-old retired sailor who worked as a civilian in the Fleet Avionics Logistics Support Center at San Diego's North Island Naval Air Station, it began when he stopped by a travel agency in the Filipino business area of National City to buy round-trip tickets to the Philippines for himself and his wife.

The travel agent, Julie Francia, introduced him to her fiance, a heavyset man with a broad face named Frank Agustin whom she later married, who sold insurance. In the months that followed, Agustin began taking Quito to lunch and out for dinner. He sold Quito some car insurance, and he also tried to interest him in one of the hard-working Agustin's sidelines—Government surplus airplane parts.

Hardly the fodder for spy thrillers. But out of this casual relationship, federal officials now allege, grew a conspiracy to steal parts for some the nation's most sophisticated jet fighters, missiles and other equipment—for clandestine delivery to Iran.

The group assembled by Agustin, including Quito and at least two others, had access to Navy inventory computers and parts intended for at least four Navy ships and two supply centers, court documents say, and before their arrest in July, equipment worth millions of dollars was stolen.

The story of how they allegedly exploited weaknesses in the military supply system to feed vital spare parts to Ayatollah Ruhollah Khomeinis' forces in defiance of a U.S. embargo is a tale with a disturbing moral: Far from requiring highly skilled agents or elaborate espionage techniques, a foreign power apparently penetrated this country's surprisingly porous military supply system with startlingly simple and unsophisticated methods.

Indeed, with the United States counting on advanced technology to give it a vital edge in national security and Administration officials from President Reagan on down warning against letting this country's defense technology fall into unfriendly hands, the potential magnitude of the loss in such a case stands in stark contrast with the mundane, almost trivial methods used.

NOT KGB AGENTS

In the words of Peter K. Nunez, the U.S. attorney in San Diego whose staff is now prosecuting the case: "If these guys could do what they did, what is to prevent someone else from doing it?"

"This is not James Bond. These are not KGB agents stealing defense secrets. These are little people motivated by dollars who I don't think care about where the parts are going. If the Ayatollah had said we needed galvanized garbage pails they would have garbage pails they would have stolen that," Nunez said.

Arrested in the case were Agustin, who moved into San Diego's close-knit Filipino-American community from Canada in 1979; his wife, Julie, a longtime socially active member of the Filipino community; Frank's brother Edgardo from New York; Quito, and two sailors, Primitivo Cayabyab and Antonio Gatdula Rodriguez. A seventh man living in London, an Iranian national named Saeid Asefi Inanlou, was taken into custody by British agents.

All seven persons were charged on at least 61 counts each of conspiring to steal, transport and illegally export U.S. military aircraft parts. Each has pleaded not guilty in federal court, except for Inanlou, who has not been served with the U.S. charges in Britain. He is free on $150,000 bail after being charged with violating British export laws.

Lonn E. Berney of New York, who is representing the Agustin brothers, said that at most the government's case is about two men engaged in an import-export business who were "mistaken" about what they were permitted to send out of the country.

TWO LEGITIMATE GUYS

"You've got two legitimate guys who in the worst scenario, the worst, they were a little careless and mistaken . . . that some of the things, that maybe some of these things shouldn't be shipped," Berney said.

But recently released court records show that investigators believe Agustin may have headed a ring that included as many as 20 persons, many of whom were in the Navy. Prosecutors say their investigation is continuing.

In the view of federal officials, the unswerving loyalty and allegiance to family and close friends that exists in many parts of the Filipino community—a quality known as *pakikisama*—played an important role in the case. It enabled Agustin, working through his wife's long-established ties in the community, to develop the kind of relationships with people like Quito and Cayabyab in which he could make unusual demands.

The Agustins were known as one of the Filipino community's more successful and generous professional couples. She ran a well-known travel business, and he sold insurance. He had married Julie in 1982 after a brief courtship, making him a relative newcomer. But Julie had lived in San Diego since 1959, and had helped found the Pampangueno Assn., a social group for Filipinos from the province of Pampango outside Manila. They were regular guests at dinners, picnics, awards banquets and other important social functions.

Meanwhile, Agustin's brother Edgardo had settled as a naturalized citizen in New York and had become acquainted with Inanlou. Inanlou ran a business in London which, among other things, shipped fighter aircraft ejector seats to his homeland during 1980, after Khomeini seized power, court documents say.

According to a government affidavit, Inanlou persuaded Edgardo to form a New York corporation called Merit Communications Inc. By 1982, the new company had

sold Inanlou $1.5 million in quasi-military equipment and supplies, such items as maps of Iran-Iraq airspace, radar tubes and radio equipment.

BROTHER'S REPRESENTATIVE

The business came to include Frank Agustin in San Diego.

"According to him (Frank), he worked for his brother, as his brother's representative." Julie Agustin said in the recent interview in the Metropolian Correctional Center here. "He (Frank) just told me he (Frank) has some shops he goes to, like he buys surplus. That's all I know."

According to a source close to the case who refused to be identified, when Quito stopped in to visit Julie's travel agency after returning from his 1982 visit with relatives in the Philippines, he found Agustin engrossed in a catalogue published by Grumman Corp., the company that builds the F-14 Tomcat fighter.

"Listen, can you get me the price list and let me know when there will be some bidding for parts, aircraft parts?" Agustin said, according to the source. Quito refused the offer, though it was legitimate because it pertained to selling equipment to the Navy through public bidding.

AGUSTIN UNDETERRED

Undeterred, Agustin pursued the relationship with Quito, the source said. At some point, authorities believe, their relationship extended into illegal trafficking in military parts.

Exactly when the ring allegedly began to take equipment from the Navy supply system is still unknown to federal agents, but the first shipment they have traced was in February, 1983. It was a 37-pound carton labeled: "Automotive Parts (starter)." Investigators believe it contained Navy parts prohibited from export.

The February, 1983, shipment was the first in a stream that averaged about one a month, documents say. As the alleged ring expanded its operations, the shipments stepped up in frequency to an average of once every two weeks around October, 1984, agents say.

In October, 1983, Agustin met Cayabyab, the Navy storekeeper assigned to the Kitty Hawk.

Cayabyab came to Agustin's office looking for car insurance. According to FBI reports released to defense attorneys, Cayabyab said Agustin asked him to provide "old scrap parts lying around" that were "destined for disposal," an unglamorous request Cayabyab complied with by returning with an old T-bracket and "two empty steel drums."

Eventually, it is charged, Cayabyab turned over more valuable items. When he was arrested in July, Cayabyab told FBI agents that "he had stolen F-14 parts for Frank Agustin," FBI reports say.

How long the ring might have gone undetected is anybody's guess. It was not Navy vigilance that sounded the alarm. Instead, early in 1983, federal investigators received two anonymous letters that tipped them to a possible conspiracy.

The Customs Service subsequently launched an investigation.

Federal agents took their first peek into one of the ring's shipments in December, 1984, when a Customs official opened two cartons marked "auto parts." Inside, he found a $77,320 gimbal assembly—an F-14 navigational device—and a $64,600 F-14 gas turbine fuel control.

A month later, agents intercepted another shipment and found more sophisticated F-14 equipment, including two parametric amplifiers for the Phoenix missile worth $23,500 each—both known to have been stored at the North Island Air Station.

Just how these parts found their way from Navy shelves into the boxes marked "auto parts" points out the vulnerability of the military supply system, a source close to the investigation said. One source close to the investigation said that Agustin had been able to recruit some people who had access to Navy computers that could change records to show a certain F-14 part had been received by, say, an aircraft carrier.

Meanwhile, the parts actually were sitting in a land-based warehouse, where it was a simple matter for Navy employees to put them to their car trunks and drive off base at the end of the day as guards waved them through the gate, the source said.

CAR SEARCHES RARE

The military system is predicated on trust. Searches of cars driving off-base are rare if the vehicles have permits, which means that the supply system can be

breached easily, said Philip Halpern, an assistant U.S. attorney prosecuting the case.

"If a person is in a position of trust, it's very difficult to control access to parts if that position of trust is abused," he said. "It's one thing keeping your parts safe from outsiders. It's another thing when the outsiders are using military personnel for obtaining parts."

For the Agustins and other members of the alleged ring, the theft and smuggling of parts was handled in an almost routine way, according to court documents. Agents watched as Frank once drove to a swap meet in the parking lot of San Diego's Jack Murphy Stadium, talked to a man and allegedly walked away with photographic negatives of a military aircraft.

They followed Julie Agustin as she took boxes filled with stolen military equipment from the couple's rented storage locker and delivered them to a Federal Express office in San Diego for shipment.

Agustin and Inanlou, the ring's supposed contact with Iran, called each other more than 130 times from the beginning of 1983, court records show.

When agents began to listen in through wiretaps in April of this year, they heard Inanlou ask Agustin about the "video 14," which investigators understood to be a code for a camera for the F-14. Then, the Iranian dictated a short shopping list to Agustin that included a Teledyne engine, radar receivers and pneumatic tires.

Over the next few months, investigators heard the two men talk about merchandise damaged in the shipments and the transfer of money, including a reference that the agents believe revealed a $10,000 payment from Inanlou to Agustin for the delivery of equipment.

As the government's investigation kicked into full gear, Frank's financial and social fortunes appeared to be improving. He was now the business manager of the Pampangueno Assn., the social organization Julie had founded.

After the first year, the couple moved from their offices in an old house on Roosevelt Street in National City to a nicer, glass-front office nearby. Frank began driving a gold Mercedes Benz, complete with mobile phone, which state records show was registered to him on April 18, 1985.

Prosecutors say they believe Frank, Julie and Edgardo Agustin made "hundreds of thousands of dollars." As proof, they say the Iranian Air Force paid $196,000 for one of the shipments that originated in San Diego.

Court records show that Agustin paid $2,000 to sailor Rodriquez as early as January, 1983. On May 15 of this year agents opened a shipment from Agustin's fictitious company and discovered 16 F-14 torque actuator rings. Prosecutors say they are the same ones ordered by Rodriquez on a Navy supply computer.

This spring, members of the alleged ring may have sensed trouble. On May 20, only two months before they were arrested, Cayabyab called Agustin to say: "I was worried about you. . . . I thought they got you," according to transcripts of the wiretapped conversations.

After federal agents arrested Frank, but before they apprehended Julie, the Agustins continued to talk on the telephone about their alleged smuggling activities. On July 14, Agustin called his wife from the federal jail and the government listened in.

"I'm afraid because, you know, they might get me too," Julie said, according to transcripts of the conversation.

"What now?" Agustin asked.

"I don't know, love," Julie responded. "My heart is pounding. I don't know."

[Attachment 4]

ESCONDIDO, CA., *September 2, 1985.*

Hon. JIM BATES,
San Diego, CA.

CONGRESSMAN BATES: Please accept my apology for a typo-mispelling of your name in my previous letter. I am an Engineer by training and you know what they say about engineers and spelling. However, I should have picked up that typo.

Attached is an article from the L.A. Times about the Naval Investigative Service for your information. Please note it strongly supports statements made in my previous letter concerning the NIS/IG. In my opinion they (the L.A. Times) were very lenient on the NIS. There are many practices utilized by the NIS which are designed to "cover it up" and bail out the Captain when needed. I know because I reported my Commanding Officer for waste, fraud, and abuse. I got a first hand look at their methods.

I continue to request a Congressional Investigation into the practices, methods, and goals of the NIS and Navy IG.

Sincerely,

ARCHIE D. MCPHEE.

Mr. BENNETT. We certainly thank you for your courage and persistence and thoughtfulness in coming forward. It is not easy to come forward with something of this nature and to persist in it against some kind of monolithic apathy or desire not to stir anything up. It deserves a lot of credit on your part and we appreciate that very much.

Now, you have specifically suggested that the NIS be abolished or at least taken out of this type of activity. Do you have any specific things to tell us about why you think that is so? Any further thoughts you might want to give us on that?

Mr. BATES. Well, I tried to focus on the problem that, as I understand it——

Mr. BENNETT. Do you think it is redundant? Do you think the inspector general can do the same thing?

Mr. BATES. Well, you have a tough problem because, one, no one understand, the Navy system better than the Navy, No one is in a better position to report these things and to deal with them. So I think you need the naval personnel involved in this.

The problem comes in when they, their first allegiance is to the command, the commanding officer of the command that they are assigned to, and that the problems are brought to his attention. He would rather deal with them in his own way and pursue them and many times they may be immediately corrected in the sense that someone is taking things from the supply room and yet the person remains in that position because to deal with it in its totality would mean he would be disciplined and that would then reflect why did it happen in the first place, why did the commanding officer not know what was going on?

And in the case of Miramar where the Navy has come down fairly hard on a couple of the officers there, in contrast we have, I think, with this espionage, as I prefer to call it, on the F-14 parts. To date not much has happened, and I think—not that I am hoping that people are disciplined, but I see very little discipline meted out.

During my Marine Corps years, a strong part of the organization was the discipline and the disciplinary action if one did not carry through with his orders. I think it worked fairly well, and I think we moved away from that, particularly where we have the agents reporting to the command without reporting directly to those who are trained in investigations and how to deal with these matters.

Mr. BENNETT. In addition to the idea of abolishing the Naval Investigative Service, and perhaps giving that function to the inspector general, are there any other legislative proposals that you specifically think could be done by legislation rather than by administrative action?

Mr. BATES. I think that we can offer legislation. We can create a bureaucracy that makes it almost impossible for them to function, and what I think really is at the heart of this particular security breach is the internal operations of the investigation procedure.

The other problems, while they may be widespread, fraud, waste, abuse, or they may not be widespread, they are certainly occurring, and I think those have to do with attitudes and accountability and strong disciplinary action. So I think the system can deal with those.

We have some peculiar problems that have to do with the computerized supply system that I think have to be addressed separately.

Mr. BENNETT. As you mentioned, the Secretary of the Navy has taken some actions. Do you feel they are insufficient, and if so, to what extent and how?

Mr. BATES. Well, I can only contrast them to actions they have taken in other areas. We are talking about 600 ships—any one is arbitrary—to me it does not come anywhere close to the sensitive parts being smuggled and sold to Iranians for their aircraft. So I would just say——

Mr. BENNETT. You point out the Secretary of the Navy was very vigorous with regard to some of those things?

Mr. BATES. Tough on one command, and maybe again, there is more to follow. I want to carefully couch my comments because I don't want to be saying something that maybe is underway, but I would say to me, the impression is that because of the media attention there was an impression of more reaction and more discipline, and perhaps that is not the case. There seems to be an attempt to split off the incidents on the F–14 parts and disassociate them from the problems of mismanagement and the supply system and I think they are interrelated. I think there is a kind of mentality when someone sees somebody sticking silver bars in their pocket and getting away with it and using the equipment on the ship to cut them up, and that being common knowledge. I think it is sort of everybody free-for-all attitude which I think is very detrimental, and the fact this has occurred previously, as I mentioned, at Clark Air Force Base—this is not something that came out of the blue—and so it appears that there is a real lack of tightening up with supply procedures and taking it as seriously as it should be taken.

Mr. BENNETT. Mr. Spence.

Mr. SPENCE. I just wanted to find out, if I could, if you think the supply system itself is at fault, or the people who work within the system in not complying with it?

Mr. BATES. Both. I think it is a question of the perhaps too complex a system, that if it doesn't function readily, it invites someone to bypass those procedures. In other words, if they are not easily accommodated.

I think also that there has been this attitude that we sacrifice everything for readiness and the cost of supplies. The way they are handled doesn't mean anything. It becomes a meaningless figure. It is not their money. Some of the people like Petty Officer Jackson are upset by that and step forward, but there is tremendous peer pressure not to tell on your comrades.

When you see wholesale dumping from ships—which has been acknowledged—the extent has not been completely documented, but certainly there has been dumping of parts. I can't tell you since I became involved in this, I became kind of a lightening rod for calls from all over the country, people who have got their tales to

tell about the shipment that was dumped and the shipment that was salvaged that was perfectly good, and it goes on and on.

So I think when you experience those things, your attitude changes and I think they should not be experiencing those kinds of incidents.

Mr. SPENCE. The reason I was asking, a few years ago when the other services were having problems with their supply systems, it was suggested by some that they look more closely at the Navy system, which was a lot better, and try to emulate them, and that is what I was wondering about.

Mr. BATES. Well, I am not an expert on this. I can only give my impression. My impression is that for a long time everybody knows it has been going on and nobody has been doing anything about it. I can't tell you how many come in. I got one this morning on my way over here saying everybody knows the stuff has been going on, it is about time somebody started to do something. So I hope that somebody does do something, and I will be looking to the subcommittee for strong action.

Mr. SPENCE. There again, is that human element or is that system itself that we are——

Mr. BATES. I think it is a combination of both.

Mr. SPENCE. Thank you.

Mr. BENNETT. Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

Mr. Bates, I appreciate your testimony this morning and I completely agree with our opening remarks to the effect that Petty Officer Jackson essentially was in a position of responsibility, he was Navy personnel. He reported facts that he thought were important to his job. I think that it would be detrimental to this process to—I have seen some of the media and some coming from some official sources—any attempt to demean Petty Officer Jackson—I think that his statements were done in what he perceived to be the interest of the Navy, and I just read the CNO letter in response to this situation and he says essentially there were 15 allegations and at least 4 of them they felt were clearly with merit. Even with that amount, I think there is a good chance there were several others that were meritorious also. It was worthwile and Petty Officer Jackson, we appreciate your appearing here this morning.

Let me say that I think we have a couple of problems that you have touched on, maybe three problems. One is people, the other is machinery, or computers if you will, and the last one is punishment. I think that a number of problems with regard to the theft, and Mr. Chairman, when I asked to call the hearings, one thing I was very concerned about, the main thing, from my perspective, was F-14 parts. I understand we can't go into that in great depth today, but in looking at the system and how the system operated—and I hope to get into this with the Navy witnesses—it appears that there were situations in which parts were ordered by ships—not the U.S.S. *Kitty Hawk* but by other ships that couldn't possibly use F-14's. In other words, they were sending out a shopping list that couldn't possibly be utilized by that vessel or by the equipment on it.

I think that goes to what you have spoken about with regard to accountability. You have to have individual accountability, and

with review, if it was possible to make a review with our computer system, for the supply officer on the ship that orders these parts to make that review. If he did make the review he would have been able to ascertain that in fact Mastercharging parts to the charge account that he couldn't use, and obviously his shop couldn't use. That would have come forward.

I think individual responsibility is a major thing here, and something that can be fixed fairly quickly simply with people realizing that it is their responsibility, their duty to do certain things and to be responsible for a certain portion of that supply chain.

The other thing, the machinery element, I think, is important also. I think you mentioned the Secretary of the Navy's efforts. He made a statement essentially in response to this problem, in which he said that Congress wanted more readiness and by negotiation we gave you more readiness, and therefore we had to be somewhat lax on parts. And an image was conjured up that you have a lot of F-14's screaming off the decks and therefore you have people moving black boxes back and forth and other parts, and can't possibly be having a stack of paperwork with each part.

And his final remarks were to the effect now, if you want more accountability we are going to have to put a lot more bureaucrats on board, therefore, we will be taking war fighting sailors away from our vessel and will be reducing readiness in reflecting on that.

In talking with some of our computer experts in the civilian area in this country, it occurred to me that doesn't have to happen because one thing that a good computer system does is make things more simple, not more complicated. It can reduce the number of people you need to work in the supply system, not expand the number of people that you need.

One recommendation that I am going to make to the chairman I think is important, is that perhaps we have a blue-ribbon panel appointed by this committee that is comprised of members of the private computer field, experts in the private industry, who could step back and look at the Navy's computer system and maybe make some suggestions to this committee and to the Navy, and it might be very beneficial for all parties concerned. It might be a little easier for us to step out of the box or have somebody who is not in the box step back and look at the system and make some recommendations as to whether or not it can in fact be simplified.

The last area that I would like to have your opinion on with regard to the F-14 parts is simply this. I think one thing that we have missed in the past with regard to our laws and in our opinion in the armed services over the last 15 years have become quite lax on, is punishment with regard to stealing military property, not just Navy property, but military property, with the intent to transfer it to a foreign government like Iran.

As I understand it, an Army officer, for example, who was involved with a theft of several Army parts, missile parts can only be punished with a maximum of 5 years. Basically this is punishment arising under the illegal export statutes, but there is no statute that call for harsh punishment for taking military equipment, stealing it, with the intent to transfer it to other countries.

I have introduced some legislation in that area. I would like your opinion as to whether or not the 5 years is a sufficient deterrent, and I understand that what we are going to have to do with regard to the F-14 parts is essentially add a number of counts together to get an accumulated total that is fairly high. If we stopped the Iranians with only one count when only one transaction had transpired, we will be limited to a 5-year punishment for stealing vital parts and transferring them to an adversary. And later on, I will ask our Navy witnesses to answer the same question.

Have you got any thoughts on this situation?

Mr. BATES. Yes, Congressman, I tend to agree with you that the punishment is now insignificant. Harsher punishment is necessary, and I would think particularly of these vital parts, in the high-technology society, such as ours, they can take on a value I think that perhaps we have underestimated. But I think the transfer of technology is a serious problem and certainly one that need to be protected.

Mr. HUNTER. Thank you.

Thank you for appearing before us today.

Mr. BENNETT. Mr. Price.

Mr. PRICE. No questions.

Mr. BENNETT. Now, at this point maybe we want to get down to Mr. Jackson as soon as we can. I am going to ask if there are any other members that want to inquire of Mr. Bates.

Mr. SISISKY. Yes, thank you, Mr. Chairman.

I also would like to congratulate Mr. Bates for doing this. I have a little disagreement with him, however. As I look at what you have suggested, and they are very thoughtful and thought-provoking suggestions, I think most of them can be taken care of administratively, and the only one—the chairman touched on it—that is a legislative proposal of course is to do away with the Naval Investigative Service. That seems to me, I would have a disagreement with that. It is like doing away with the Internal Revenue Service because you caught somebody cheating on their income tax.

I would call the committee's attention to section 1223 of the committee conference, which we have not passed, which has a sentence in there: "The Secretary of the Navy shall prescribe regulations providing to the Naval Investigative Service authority to initiate and conduct criminal investigations on the authority of the Director of the Naval Investigative Service." Now, that was not put in there—also for the Air Force too—was not put in there for this case but it seems to me it is fitting—it was done mainly about Grenada I think is the reason that it was put in there. But it seems to me that of course the gentleman certainly has a right to put in a bill to do that, but it would not be the right thing to do in my opinion. It seems to me the inspector general is the oversight to look and not make him the investigator.

That is the only thing I wanted to say.

Mr. BENNETT. Does anybody else want to inquire?

Mr. SISISKY. Did you want to respond?

Mr. BATES. I would like to respond.

I think I have chosen to characterize it as abolishment, but I think the function would still have to be performed and this is talking internally to the chain of command, if you will, or whoever

the reporting authority, would be independent, is the function that I am attempting to achieve.

Mr. SISISKY. Thank you.

Mr. BENNETT. Anybody else?

Mr. BUSTAMANTE. I wanted to ask Mr. Bates, in reference to his experiences in investigating—especially Mr. Jackson's case as a whistle blower—the many problems that he encounters and we have seen the same problem with other areas of the services in which they have to go through investigations on their own personnel areas. I think that in this committee or any legislative committee in addressing this area, you encounter some of the bureaucratic problems and you have to work even around the Navy area to get Mr. Jackson reassigned. You made that clear in your statement.

I think this is an area that we need to work on because they become a target of investigation themselves when they come forward. What is your observation?

Mr. BATES. I would agree with you. There is an attempt, if you don't like the message to kill the messenger, and I think Petty Officer Jackson was threatened by people who had committed some improprieties and the Navy did assign him on a facility where he was well known and did, I think, put him in a threatening position.

There have been a number of issues on the Civil Service Personnel Subcommittee, chaired by Congresswoman Pat Schroeder, and the attempts to protect the whistle blowers, and I would say in essence that basically the current system does not afford protection, and I don't know how you really get at that problem.

What I found is that the people who have come forward and been most helpful for me are those who just retired and if you notice, in the case of Petty Officer Jackson, he waited until his term in the Navy was up, and I think that is about the only way they can get the protection is to simply either retire or to leave that position.

Mr. BENNETT. Any further questions by any member of Mr. Bates?

There being none, we want to thank you very, very much. Please come and sit up here with us and you will have your chance to inquire of the other witnesses when they come on.

At this point we now have Mr. Robert Jackson, a former petty officer, who served on the *Kitty Hawk*. We appreciate your coming forward. We will take this opportunity to congratulate you on your courage and persistence in trying to bring these matters out.

STATEMENT OF ROBERT JACKSON, FORMER PETTY OFFICER WHO SERVED ON THE U.S.S. "KITTY HAWK," ACCOMPANIED BY D. ANTHONY GASTON, AND RANDY C. WHALEY

Mr. JACKSON. Good morning, honorable representatives and Chairman Bennett. I was wondering if both of my attorneys could join me at the table?

Mr. BENNETT. They may.

Mr. JACKSON. I would like to introduce them. On my left, Tony Gaston, attorney at law, and on my right is Randy Whaley, attorney at law, and I personally feel if it wasn't for both of these men, I don't think I would be alive today and here.

I would like to kind of give you a background of who I am. Five months ago, I was a career designated sailor. I have topnotch evaluations, the best you can get in the Navy. My future naval career looked bright and promising. And then I came to a crossroad. It was the hardest crossroad I faced in my entire life. The road to the right, of honesty, I knew would jeopardize my life. I was going to end a lot of people's careers, put some people in prison, and obviously put a crimp into my own career.

The road to the left was quite easy. All I had to do was close my ears, my eyes, my mouth, and walk away, as many people before me had done.

I chose the right, and for many reasons. I am 26 years old. I was born in California into a family of eight children. I am the fourth child down, so I started working when I was 9 years old. My Dad taught me the value of the dollar. With eight children you don't get nothing for free. I learned nothing in the world is free.

I attended high school. I have gone through some college, had accounting and college level finance.

Originally I joined the Navy for patriotic reasons in 1977. I spent 3 years on active duty and had a blast. It was fun. Then I got out, spent 2½ years in the Naval Reserve, for personal reasons—my exwife did not want me to make the Navy a career. But after my divorce I reentered the Navy with the complete intent of making it a career after I had already spent 6 years between active duty and Reserve time.

I arrived on the *Kitty Hawk* in September 1983, and when I first looked at the ship I was amazed how big it was. On October 26, 1983, I was assigned as a divisional supply petty officer, which has never been addressed to either by the committee nor the press, which I am going to address today.

A collateral duty I was designated as supply petty officer. In July 1984, I volunteered and created a position that was called a department supply PO. I did this because I thought it was pretty unfair for other people to have to do what I did. For me to learn the complex Navy supply system, I had to spend my off duty time reading Navy supply manuals both Navy Supply P-33-2 and Navy Supply P-48-5. So I thought, well, look, what can I do to help my shipmates. This was my whole intent since the beginning, was to help the Navy.

In December 1984, because I was doing very well and helping my department and saved my departments hundreds of thousands of dollars, I was transferred to the ship's finance section, and I was given the position of the supply and equipment 20—fundholder. Later on, I was given the position as the supply and equipage internal auditor. I was not just an auditor, I was the ship's auditor. There was nobody doing what I did before me. My predecessor, before I came, he went on a gross estimated audit system where he went by the internal 8207 accounting format, the computer system, and never looked at the books of the divisions.

Performance aboard the *Kitty Hawk* which—many I believe, Congressman, have a copy of my statement—I was commended by my department for saving hundreds of thousands of dollars, and I wanted to stay in the Navy, I wanted to make it a career, but I found the road to the right became too hard.

What did my audit of the division aboard the *Kitty Hawk* demonstrate to me? What I would like to do is, you have a good analogy now, I would like to put the Navy supply on the *Kitty Hawk* and give you and analogy of that equals the department store. In his instance, what you have is supply corps officers and these people, these men and women are quite well trained. These are managers, your aviation storekeepers, and your storekeepers; these are your cashiers and clerks; they are also quite well trained. But then you come to a divisional supply petty officer. This man is your customer and he is using a charge card. The charge card he uses is the American people's money and he has no concept of what he is doing at all, which I believe this evidence will show you.

What I found was that people couldn't balance their books. Some people weren't even keeping books. Some people had made up their own books, and then some people were just using whatever they had and there is actually an instance here where there was no books and this was in the supply department itself.

The supply system aboard the *Kitty Hawk* is in shambles and I don't say that word because I want to, I say shambles because it is true, what I feel is true. What I found was a computer system that was flawed to such an extent that nobody knew how much money they were spending. The 9207 system is a good system, but human errors, as in anything, you are going to have mistakes.

As a backup to the computer system, I tried to develop a manual system. If your computer system fails you always have a manual backup. This is the core of what I found. There was no manual backup system.

Sailors were openly selling parts for personal gain. It has been documented in my statement and Congress has, the subcommittee has the power to subpoena many of my informants. I am sure many of them will tell you what I have said in this statement. One young man was going to sell used video games and dinnerware. The only reason he didn't is because I told him not to.

There was a general mismanagement of the supply system I believe. Instead of the supply department saying—my internal auditor came to me and he says $2½ million he has found that I have sold my customers and I don't know where the $2½ million is, and your auditor comes to you and says here, this is who bought it, this is where it should go, please put these charges into your supply system and the comptroller says no.

What that causes, sir, is if people don't know what they are doing, and they are relying on the computer system to tell them how much money they have left and how much money they have spent, and that computer system is a fraud, then they overspend their budgets, and not because they are criminals, just because of ignorance.

There is no responsible person watching what they throw over the side of the ship. I think that is important, that somebody should monitor what you discard over the side of a ship. It is easier to order a brandnew fire nozzle than it is to spend 3 hours shining it with Brasso.

Why did I go to the Congress and the Senate, to Congressman Hunter and Congressman Bates? You know, I attempted to follow the chain of command. I found out it didn't work. I attempted to

disclose what I discovered to the Naval Investigative Service and I found out they don't work.

My life had been threatened and I needed help. At that point in time, Congressman Bates was the Congressman in my district, who was anxiously looking for people as I, so I came to him to protect my life. I felt that my observations and conclusions were important not just to the Navy, but to the Congress and people of the country.

What I found with the Naval Investigative Service, sir, is, when I went to them and I said, sir, here is a whole bunch of evidence, approximately 2,000 pages, and I have 100 informants who are willing to come forward and talk to you, but sir, they request to remain anonymous. Some of my informants have up to 16 years in the Navy, they don't want their careers thrown away. Some of my informants were married and had wives and children, and had been threatened previously because they had helped the NIS and their names were let out.

The Navy Investigative Service guaranteed me that my informants would remain anonymous, receive protection and immunity if they were involved in certain areas. But what actually happened? Naval Investigative Service misplaced and/or the three-quarters of the evidence. Every one of informants, these people who had put their lives in my hands, and told me things that only they knew about, were exposed. These people lived on this aircraft carrier 365 days a year. When you pull them out of their work center, and you quiz them, what you are doing is ostracizing them. The rest of their shipmates and their peers look at them like they are Narc's, and they are squeals. This is what happened, and I felt very, very bad that my informant's covers were blown.

Time does not permit me to speak in detail regarding the evidence I have provided to both Congressman Bates and Congressman Hunter and Senator Wilson, but I would like to briefly cover the 11 allegations that I documented. I feel comfortable with four of my allegations coming true, because four of my allegations are hard cover documents you can't change.

Seven of my allegations dealt directly with informants. If I was my informants and somebody came to me and exposed me to my shipmates, I would have divorced myself of Bob Jackson in a heartbeat, especially if I only had 4 years to go in the Navy before retiring.

Forgery, 1985 survey documents, I believe the Navy accepts that and says it is true.

The fraud, 1983 budget open to reports, fraud 1985 load documents. Fraud, in the OPTAR logs.

Improper purchase contractor work. What I actually in my heart felt to be price fixing. Coverup of that improper contract work.

Fiscal irresponsibility, improper accounting procedures.

Kickbacks.

Black market stolen U.S. property and improper handling of material.

I would be happy to discuss with the subcommittee in great detail any area of or questions that you may have on the allegations that I bring forward. I believe you should believe me and disregard the evidence from the U.S. Navy that may discredit me or my allegations.

The Navy has 3½ months to digest my statement and its documentary backup. I have not had an opportunity to review the Navy's investigation and its conclusions. I have firsthand knowledge and personal experience the Navy's investigation is based upon hearsay. I suffer command intimidation and I believe right now many of my informants who were exposed are also suffering from command intimidation and fear of reprisals. That is what keeps so many people silent.

I believe the Navy's report is self-serving and it is like the fox watching the hens.

The U.S. attorney in San Diego has indicted individuals for stealing F-14 parts, Phoenix missile parts and selling them to Iran. The FBI has investigated many of my allegations and found them to be true. U.S. Customs Office also. But the biggest and most important things, sir, I am the man who blew the whistle on the Naval Investigative Service and the U.S. Navy never debriefed me, they never asked me, Mr. Jackson, what does this exhibit mean?

The other things that the Naval Investigative Service and the Department of the Navy did was to take this statement that is before you and covert it on to their own letterhead. The Naval Investigative Service did not spend more than 2 days talking to me. I don't know how they did their investigation, sir.

My evaluations and my orders substantiate my ability to make these allegations.

Why is this all important to me? A lot of people have asked me why did I blow the whistle?

I did it, first, because I was a sailor, and second, I was a responsible American citizen and unless I am mistaken, the Uniform Code of Military Justice requires me to do what I did. But I didn't know I would be treated as I was. I wanted to be a career sailor, but my career is ended.

I think the American people deserve better than what I witnessed. I think our national security is profoundly compromised.

That is the end of my opening statement, sir.

Mr. BENNETT. Well, I certainly deeply appreciate your being here. Those of us who are over 26—I certainly am a lot over 26—look back to my life and wonder whether at 26 I would have had the courage, the determination and followthrough, particularly when you stumble along the way; everybody stumbles.

I can remember since I have been in Congress, at a much riper age, when I was trying to establish the code of ethics for Government employees and establish the Committee on Ethics in Congress. Everytime I did anything, everybody was sneering at me someway or the other, like I was the guy trying to look at everybody's sins and all that sort of thing, trying to make me out as the sanctimonious person. It is hard to carry that kind of pressure when all you are trying to do is see that it still works and you are proud of your country, in your case, proud of the Navy. You want to meet with approval and instead you meet people covering up and it is awkward to squeal on somebody, and the peer pressure is tremendous.

I was much older and not near in the public light as you are and yet it was a very, very painful experience to me and I just think that if I were your Dad, I would sure be tremendously proud of the

fact that you have the courage to do it and I am sure you will make some mistakes along the way. I made a whale of a lot of them in my life at a much more ripe age than yours, and sometimes people look at those mistakes and they think that is the main thing you are doing, but the fact that you are in there plugging away against almost a solid wall of apathy or deceivers, not to have anything exposed.

Luckily for us in the U.S. Government today, we have got a firebrand as a Secretary of the Navy, we have got a Secretary of the Navy who won't put up with that. He is not a coverup man, he goes right to the heart of things, and I am sure that if he is convinced that you are correct, and in the things that you are correct about he is going to do whatever he can to see to it that these things are remedied.

And the only reason we are not talking a lot about criminal things today is we don't want to mess up the trials, we don't want to fix them where they can't be handled. It is not a question of coverup, it is if we go too deeply into that we might make it difficult for those trials to take place.

I just have a feeling of real delight in the fact that you have this courage to go forward with things like this and I don't know that I have any specific questions to ask you, except maybe you are pretty young to ask such a philosophical question of a young man like you, but do you know how we are ever going to get rid of apathy and covering-up? It is not just the Navy, it is in all kinds of life. We seem to want to cover up for everybody and not to go to the heart of things.

Do you have a feeling—let's be specific about it—do you think it would be corrected by abolishing the Naval Investigative Service or putting it in the Inspector General's Office? That is an administrative thing. It could have the same types of people covering up there, I guess. I guess what you really need is people at the top who are not just managers but who are leaders. Luckily we have got such a man in the Secretary of the Navy and I think in the CNO as well, so you have got some good top flight people at the top. Whether we can do anything about shoveling the coals on the bottom, I am not sure. Do you have any feeling about that?

Mr. JACKSON. Yes I do, sir.

I would have to agree with Congressman Bates. What I found in the Naval Investigative Service was true—what Congressman Bates has stated. One of the things, and one of the reasons I went to Congressman Bates and asked and retained both of my attorneys, was because on June 2, 1985, the Naval Investigative Service officer looked at me and said well, Mr. Jackson, on the 12th we are going to tell the captain of the ship that you blew the whistle, but you know we really can't guarantee that he will let you off. You might have to deploy with them. And that is what I am saying, it was the Naval Investigative Service was tied so closely to the U.S.S. *Kitty Hawk* that that is what I saw there.

Another area that I think would help is if people like I, we don't have anybody. Those people who are arrested, they have legal representation. I was never given any legal representation. I think maybe if the Congress can set something up for military whistle blowers. You know, something that was unique, the fraud, waste

and abuse hotline, it is no good. What I found everytime I tried to call one of these places, was they would say we have got to have your name. We can't do anything without your name. What good does it do me if I want to remain anonymous if I give my name?

So maybe if Congress had something, an avenue for people as I, then we could get more people like me to come forward, sir.

Mr. BENNETT. Temporarily you can use my telephone numbers, Mr. Bates', or Mr. Hunter's, until we get a better one set up. So I don't want you to feel there is nobody you can call. There is a difficulty about anonymous communications, and that is it is very difficult to follow up on it. Obviously because it comes, would come from me, but it is not impossible, they try to tell me occasionally it is impossible. It is not impossible, they can follow up on that. Anonymous things are sometimes very helpful.

I have already used my time, I can't ask you any further questions.

Mr. JACKSON. I wanted to cover the last one with you. You know, one of the things the U.S. Navy told me, I couldn't do what I did. I could not go to Congressman Bates, that if I went to Congressman Bates I would get fried. They would hang me. And when I met Dave Gerrie of Congressman Bates' office and I told him that, he couldn't believe it. But that is the general way you are taught in the Navy. You do not jump out of the chain of command and go to your Congressman.

Maybe if the people in the military knew that they could call you, or Congressman Bennett, Congressman Bates or Congressman Hunter, and any of the other Congressman would help.

Mr. BENNETT. And it does work because I have handled thousands of such cases in my career of almost 40 years here and I don't think anybody has been hurt by coming to me. I go to the very top. I go to the Secretary of the Navy or if it is something beyond that I go to the President and there is no way in which somebody is going to be hurt in the Navy by that kind of procedure.

Thank you very much.

I have used up my time. The next one is Mr. Spence.

Mr. SPENCE. I would like to know a little bit more. I want to second what Mr. Bennett said. People in all branches of the service don't hesitate to call Members of Congress with these kinds of things, because I think most of us hear all the time about problems they have and they should take a chance at least on calling us.

I would like to follow up a little more with the part about who followed up with you, who questioned you, just the Naval Investigative Service or did the people who were directed to investigate, the Supply Corps officers, did they set you down and go through these things with you?

Mr. JACKSON. That is interesting, sir.

The Naval Investigative Service is the only investigatory branch. But what happened on June 17, 1985, COMNAVAIRPAC, the ship's boss, sent over an investigator, a commander of the Supply Corps. He was on a factfinding mission, that is all. He just wanted to find out what Bob Jackson knew, and he left and he went back to COMNAVAIRPAC, never came back to me.

Then the most remarkable thing, the same external auditor I blew the whistle on in April, I blew the whistle April 1985 to the U.S. Navy, through an external auditor during a presupply management inspection. That same auditor coupled with the ship's finance section, and the information I gave the inspector from COMNAVAIRPAC started to do their investigation on the *Kitty Hawk.*

After that began, I had three separate informants come to me at three separate times unknown to each other and express the same thing to me. They said, Petty Officer Jackson, we have been ordered to rewrite our books to match the internal 8207 accounting system. They said they didn't feel that was right, because nobody told them to keep their old books.

Sir, if you want to change things so things don't look as bad as they do, rewrite the books, then you won't have all the problems. But even more important than that, 30 days after the investigation was underway, I had an E-6, which I will give names specifically later, not in a public forum, I had an E-6 come to me and say when is somebody going to talk to me? I can't believe this. I want to talk to somebody. When is somebody going to talk to me?

I was never debriefed; no. He spent 2 days, Naval Investigative Service spent 2 days with me and that is all.

Mr. SPENCE. Are you saying as a result of talking to people who first came to you, that subsequent to that, efforts were made by someone to cover up those mistakes, wrongdoing?

Mr. JACKSON. Pardon me, sir?

Mr. SPENCE. Are you saying that the information that you gave to these people who first talked to you, was used to lead them to the places where they could go and coverup the mistakes or fraud that was occurring?

Mr. JACKSON. I believe that; yes.

Mr. SPENCE. You don't have any way of knowing which people directed this to be done?

Mr. JACKSON. Yes; I do, sir.

Mr. SPENCE. Do you?

Mr. JACKSON. Yes, sir, and again, those names I can give you in private.

Mr. SPENCE. We will get that later on. The result of it was people came to you in turn saying we have had orders to correct these?

Mr. JACKSON. Yes; rewrite my books. In finance the only thing you have when you have a flawed computer system, the only thing you have to fall back on is the books. The Navy's technical language for that is open tar log. I like to remain in layman's technology. I will call it books.

Mr. SPENCE. We can get into that later on, but is it possible to change or correct or cover up, or whatever you want to call it, these things after they occur? Are they not in the system to the extent that they can't be changed?

Mr. JACKSON. That is what is referred to in the exhibits as uncharged items. In this instance, I found $2.5 million worth of items that were issued to customers, products, but the ship had no concept of who, what, when, where and why. The only way I was able to uncover the $2.5 million of uncharged items is because I did net cost audits of the books. The actual supply petty officer's books.

People feared me. If you did your job you got a pat on the back. But if you didn't do your job, you would get a negative audit report, which is throughout here, which you can see.

Mr. BENNETT. Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

Mr. Jackson, thank you for appearing before us today and giving very candid testimony. Let me ask you about the Naval Investigative Service, because although I agree that there have got to be changes, I do not see a substitute for having people in the Services who are also investigators and I think one of our problems is on a ship, because overnight you are off the ship, it is a floating city, it isolated from the rest of the command, at least physically, and I think it is very difficult to have people on a ship who are not at least in some way reporting to or working with the captain of the ship.

I know traditionally, we have tried to change things from time to time but you have to have one captain of a ship. I understand your problem with having a Naval Investigative Service essentially that is reporting to the captain or working with the captain, and sometimes what they have to report or what they find are not necessarily consistent with that commander's career. It is a difficult problem.

So I guess my question is, when the Naval Investigative Service told you that they could not protect you that is, that you might be sent back out on deployment with the same ship and same personnel who might have a motive to dislike you very intensely, you were quite upset about that, and my question is—I am going to ask this question of the Navy—does the Naval Investigative Service have the capability, do they have the power to effect your transfer to another ship if they wanted to? Was that an individual who said I am not going to help you or Naval Investigative Service can't help you, or do they have the power to make that transfer?

Mr. JACKSON. They might have changed the rules recently. What was expressed to me was it was not within the power of the Naval Investigative Service to transfer me, that they had to get the authorization from the captain of the ship because I belonged to him.

Mr. HUNTER. I think that is the major flaw, at least one of them, that Naval Investigative Service has right now. That is, they have to be able to protect their informants whether it is removing them, doing something else or making sure that they are anonymous, which may be the most important thing they could do. If they don't have the power to do that, then I have to agree that they are not going to be effective.

On the other hand, I think that it would be better to change the system, change the Naval Investigative Service, to maintain it, than to get rid of it, because I don't see a good replacement on the horizon.

Let me just ask you about one other thing with regard to the computer system. Incidentally, I think this committee wants the names of those people who came to you later on and said because of the information that you gave we are now going to change our books, or we have been asked to change our books. I think confidentially, in classified session or otherwise, our staff people would like to have that.

Let me ask about the computer system—this goes to F-14 parts—can we mention the name *Belleau Wood* in this hearing? Is that any problem, Commodore Whittaker?

Commodore WHITTAKER. It is no problem.

Mr. HUNTER. It is my understanding that in fact some of the F-14 parts were ordered from *Belleau Wood,* which does not carry F-14's, it is not a carrier and I have talked with some private computer people who have offered some things that they would do with the system. I would like to have your input on this thing.

Apparently people can order parts from Philadelphia for Navy ships that couldn't possibly use them, and that can be taken care of by essentially blocking the system and saying that the only order sheet that you can possibly have are going to be parts that can be used by your ship and no other parts can be ordered by you, and apparently they can block it in Philadelphia and I was thinking perhaps they could also block instead of sending out to all the ships, a list of every single part that you can get for any ship or any components or aircraft, to send out to the ship itself only a shopping list, so to speak, that carries parts that are applicable to that ship.

So can we in fact adjust our system to help eliminate problems like the one that we had when *Belleau Wood* ordered parts that it couldn't possibly use?

Mr. JACKSON. Yes, sir; I agree. What I found with the 1983 silver bars, incidently, if your division supply petty officers, the grassroots of the system, those people who constantly daily dealing with the system, if they know what they are doing, it is very hard to cheat. If I know how to balance my own check book, and my own bank statement, you are going to have a real hard time using it if you know what I mean, sir. But if I don't know what I am doing, you can do what was done in 1983, use my account to order the silver and just catch it before it gets to the ship.

The other area which—this is probably the first time it is going to be addressed because I never thought of it before and it was your question that brought it out. You know, the Iranians were able to get a hold of many of the part numbers and part listings and I think that is because of what I saw. Out at sea computerized supply manuals were dumped overboard so they just floated like a quarter mile behind the ship.

In port there was a chief, an AK chief, who was allowed to remove these computer sheets as well. Supposedly, he was taking them to the Boy Scouts for Boy Scout paper drives to turn in, but this would be one way that the Iranians would be able to get those part numbers. In my heart I feel if we could shred that material or burn that material, that security may be because I am in aviation-antisubmarine warfare. My job in the Navy for 6 years is to hunt submarines and gather intelligence. I understand how easy it is to learn just by going through people's trash.

Mr. HUNTER. Thank you very much.

Mr. BENNETT. Next, Mr. Price.

Mr. PRICE. No questions.

Mr. BENNETT. Mr. Bustamante.

Mr. BUSTAMANTE. Thank you, Mr. Chairman.

Mr. Jackson, who is paying for your legal expenses?

Mr. JACKSON. Sir, at this time I am $20,000 in the hole for being an honest man and I am just about bankrupt. I am penniless. If it wasn't for my attorneys, I know I would be dead. The U.S. Navy ordered me back to the Naval Air Station after I blew the whistle.

Mr. BUSTAMANTE. Let me ask you another question with reference to your testimony. I am interested in knowing why do we bring another ship silver bars, what is the purpose of that?

Mr. JACKSON. Pardon?

Mr. BUSTAMANTE. The silver bars.

Mr. JACKSON. They shouldn't have been on the U.S.S. *Kitty Hawk*, but I think the admiral or commodore would be better able to address that than I would.

Mr. BUSTAMANTE. It wasn't for cutting them up into little pieces and handing them out?

Mr. JACKSON. Most of this you use for electrolysis, silver oxide material.

Mr. BUSTAMANTE. Thank you, Mr. Chairman.

Mr. BENNETT. Mr. Sisisky.

Mr. SISISKY. Thank you, Mr. Chairman.

Mr. Jackson, I congratulate you also for testifying here today and doing what you did.

Before I ask you my prime question, I just want to be sure, because I am going to ask the commodore the question, too, were you told directly by the Naval Investigative Service that they could not remove you from the ship? Did they intimate that, and do you know the name of the person that told you that, that directly told you that they could absolutely not remove you from the ship?

Mr. JACKSON. Quote verbatim.

Mr. SISISKY. I don't know what the naval regulations are but I am sure that there must be something in there. I will ask the Commodore that, too.

Mr. JACKSON. Again, sir, later I will give the Naval Investigative Service officer's name and that is what he told me quote unquote: "Petty Officer Jackson, I can't guarantee we can get you off this ship, it is up to the captain."

Mr. SISISKY. He could not guarantee?

Mr. JACKSON. That is right, he couldn't move me without the captain saying go ahead.

Mr. SISISKY. What I wanted to ask you, it seems to be another problem here. What is your educational background? I asked this for a reason. I will follow up on the question.

Mr. JACKSON. Well, I graduated from high school, and then from there I went into the U.S. Navy, and I learned aviation antisubmarine warfare. When I got out of the Navy I went into the area of insurance and investments, and went through a lot of courses in college to learn planning and accounting in this area.

Mr. SISISKY. Did the Navy at any time—did you go to a school to be an internal auditor?

Mr. JACKSON. Before I was moved into that position I had to prove myself. As this documentary evidence will show you, I did that. I started out as a little division supply PO, with no concept of what I was doing, like everybody else, but because of persistence and fortitude, I learned the system and I learned the system so well that my department head said, "Jackson, I want you to teach

the rest of these guys—25 petty officers—what they are doing, because your system that you have developed has saved my department hundreds of thousands of dollars."

In response to that, I would ask you to turn to exhibit 3. We don't have the exhibit.

Mr. SISISKY. Excuse me, this was by the commanding officer of the U.S.S. *Kitty Hawk* that told you?

Mr. JACKSON. No; the department head is the one that moved me into the department as department supply PO. Then it was a supply officer who moved me down to the supply department to be his internal auditor.

Mr. SISISKY. But the Navy gave you no training in this field from the supply department to internal audits whatsoever?

I will ask the commodore the question. Are there schools—I know the Army has them, the quartermaster schools. I am really perplexed, you were the internal auditor on this ship that holds 5,500 people, and with no experience, no training—let's put it that way, no formal training.

Mr. JACKSON. No documentary Navy training, but that is a key question sir, which you mentioned. The U.S. Navy does not—I underline that—does not have a standardized training, reporting or auditing program for the supply and equipage 20 funds. It is frustrating for a supply petty officer to learn one ship's method and to be transferred to another one and it is totally different. So that is how I moved into the position.

Mr. SISISKY. No further questions.

Mr. HARTNETT. I welcome you here today, and express my appreciation for your willingness to be able to bring yourself here. Following up on my colleague from Virginia's question, being a ship's auditor I imagine is a pretty big job, handling the millions of dollars.

I am a little bit distressed that you have taken no course in accounting as I have in real estate appraising. We take a 2-week course and become experts, at least we profess to be in the courtroom testifying.

If your attorneys dealt with expert witnesses, they know what I am talking about. I want to make a statement, not in necessarily defense of the Navy, but, you know, it is easy for us who have had trouble with large organizations like the Navy to point a finger and say, "the Navy," as if everyone from Secretary Lehman on down to the newest recruit, is just not the kind of people that we want to associate with.

The Navy can mold seamen, sailors, but they have a hard time molding character, and I think some of the things that you are speaking of probably could be better addressed to the character and integrity of individuals than a blanket indictment of the entire U.S. Navy.

I was interested in the fact that you feared, one, your life; and two, that peer pressure was so great among your fellow shipmates that if one of their own were called from his ranks to be questioned, to testify to the Naval Intelligence Service, that he or she would have been ostracized forever.

That is an implication that all are involved in some type of fraud and fear that one from their midst might suppose all of them are.

Is that too blanket an indictment of the Navy, or is that just the kind of blanket indictment of society in the kind of character that our young persons turn out to be?

Do you think there were many involved in it, Mr. Jackson, were most of our shipmates completely innocent, and some were bad apples in the barrel?

Mr. JACKSON. You know, sir, I would like to take this opportunity to stand up for those people in the U.S. Navy. It is not easy to leave your family for 6 to 8 months at a time, and it is not easy living on an income where sometimes, if you have a family of four, you are in the ghetto and on food stamps.

In the U.S. Navy, the Naval Investigative Service is considered by those enlisted people to be the KGB. OK. They can entrap you if they want to. They can set you up. Any time that the Navy Investigative Service talks to you and your peers can see that, but don't get to hear what they are talking to you about, that automatically forms that character of the ostracizing of him as a squealer.

They don't know why you squealed or who you squealed on, all they know is that you are talking to the KGB.

Mr. HARTNETT. Mr. Jackson, I am shocked that we can get anyone to volunteer for service in the U.S. Navy. It is my understanding that the Navy is still a volunteer service.

If living conditions are so hard, if shipboard conditions are so difficult, and if they fear that one arm of the service which they volunteer for is some type of Gestapo organization, I find it difficult to understand how we get anyone into the Navy, much less to stay in the Navy, and still after 4 years in the same branch of the service, you had told about all of its problems and by your own admission, had intended to make it a career.

Let's address that a little further. If the Navy is such a horrible organization, why would an outstanding, bright, young man like yourself even consider making it a career, when you could have done so much better on the outside?

Mr. JACKSON. Maybe I painted the wrong picture. Nothing in the world is perfect. The Navy has problems. But overall, I think the reason so many people like me wanted to make it a career and do make it a career is patriotism.

OK, you are making a statement with your life. Nobody I know, I am sure you can call others enlisted people, at random, ask them what they feel about the Naval Investigative Service. Don't take my testimony as being official. Ask other enlisted people in the U.S. Navy what they think of the Naval Investigative Service.

Mr. HARTNETT. There is always the National Guard or fire department or police department if you want to demonstrate your exceptional patriotism, but to remain in the organization that is having the problems the Navy is having, from your testimony, to me seems almost unbelievable, unacceptable.

Mr. JACKSON. I was an aviation submarine warfare operator for 3 of my active years. The first enlistment I had a blast. I mean, it is challenging to go out and find a Russian submarine in the middle of the ocean that you can't see, and to track that submarine to a point where you can say you sank it.

That is a challenge you can't find in the civilian world or National Guard. There are particular areas everybody in a career, wheth-

er you are a storekeeper or aviation submarine operator that you enjoy, and I am not saying that the entire U.S. Navy is bad.

Mr. HARTNETT. Let me ask you, if your attorney—I realize my time is used up—I mentioned the expert witness, I wonder if your attorneys might permit you, if you would voluntarily, as I have to do when I testify to the value of a piece of real estate in the courtroom, if you might more definitively outline for us your qualifications in terms of where you went to school, how long you were in the Navy, how long you stayed in school, what courses you took, what would qualify you, obviously in the eyes of the Navy, you were qualified, maybe that is all the qualification you need, maybe that would stand to the evidence you were qualified to be an auditor for purposes of people like my colleague, Mr. Sisisky, and myself, if you might give us a little bit more, because obviously it is a bad indictment of the Navy if someone who was minimally qualified was an external auditor, if you might give us a little bit, I don't mean, though, to demean you at all, because I commend you for being here so we might better understand how the Navy chose you to be this auditor.

My time is up. Again, let me thank you for being here, and commend you for what you have done.

Mr. JACKSON. I would like to answer real quickly. First of all, I wasn't just given the job of internal auditor, it took me 9 months, 9 months of intense study to learn the job.

You also have the power, this subcommittee has the power, to subpoena my training records from the supply department of the U.S.S. *Kitty Hawk*. Please do it. And you will see how much training I have had in the supply area.

I wish you all had copies of this evidence. If you desire, the question you asked, you would not need to. I moved little by little to a point of taking over the ship's internal auditing.

The first evidence here is where I am recommended, the first exhibit, I am recommended:

> I would like to recommend AW-3 Jackson as operational department supply assistant petty officer. Petty Officer Jackson has consistently uncovered discrepancies, unauthorized charges to the O.W. division and other divisions with this department.
>
> Petty Officer Jackson has implemented a training program for department supply petty officers. It is advantageous to the department to have Petty Officer Jackson help train the supply petty officers and the assistant department supply petty officers with auditing and reporting.
>
> This would help to standardize the department's supply system and allow for timely reporting of the expenditures.

Mr. BENNETT. What you are essentially saying is, it is not because of college degrees or anything like that, that you got your responsibility in the Navy, but because superior officers to yours found that you were actually performing well; is that correct?

Is that why you went ahead in the accounting business?

Mr. JACKSON. That is true, sir. I trained 300 Navy men enlisted on the naval supply system. I trained in a seminar 30 officers and chiefs. I would like to touch that briefly.

I held a division officer and division chief seminar which, again, if you want, I will provide all that documentation to you—and I asked a simple question to these officers, these men directly responsible for the funds they have been given.

I said, "Sir, when do you lose your OPTAR funds?" The answer I got, "Well, Petty Officer Jackson, at the end of each quarter." Wrong. Sir, you don't lose your OPTAR funds until the end of the fiscal year.

Prior to 1980, what they believed to be true was true, but in 1980, the Navy switched over. That is why I believed so many of my divisions were overextending their budgets, because it was a concept of, I think, I am going to lose my money, so spend it quickly.

Another interesting thing that Congressman Hartnett asked me, why would people stay in the Navy if it is so bad? You can check the 1980 record, and you will find, I think, 200,000 petty officers left the U.S. Navy. That is the year I left.

We did it intentionally, to make a statement to you as to the Navy, that we wanted adequate pay. I was tired of standing in the food stamp line in my dress uniform.

I can't answer for my peers as to why they are staying in the Navy.

Mr. BENNETT. Time is up.

The pay is the responsibility of Congress.

Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

I just want to ask a very simple question. We talk about different MO's we get when we enter the military, who are those, we are talking about 55 individuals on this vessel.

Mr. JACKSON. Pardon?

Mr. ORTIZ. We are talking about 55 individuals, 5,500.

Mr. JACKSON. That is right.

Mr. ORTIZ. OK, let's see if we can get it narrowed, who were those who had the opportunity or the accessibility to do wrong, everybody with different MO's, certain groups more accessible to do wrong?

Mr. JACKSON. OK, sir, now, again, that readdresses what I mentioned earlier. You remember the analogy I gave, supply department equals department store. The division supplies those customers with their charge card, and we were all professionals in our own rights, I was aviation submarine operator or other people are dental technicians, some where boatswain mates, every department on the ship has divisions, and every division on the ship has people who are authorized to use the supply system, so actually, anybody can manipulate orders, you can order anything you want if you can get somebody to sign a chit for you, which is not too often.

And what we have seen here in the 1983 incident and the silver bars was a superior inside the supply department, but externally, yes, you had people who were like me, and you have boatswain mates and you have hold technicians and people who are professional, and what they do, what happens, you come into your division and they say, "You lucky son of a gun, you are now the Department, Division Supply P.O.," and you say, "OK, what do I do," and they say, "Well, read that book there and if that ain't enough, go down to the Supply Department and ask them what to do."

What happens when you are working 12 hours in your primary area, you get off work and really don't feel like reading dry material, so you just wing it, and you try to do the best you can.

This is where, I hope that the subcommittee allows my testimony to go into the record, this is where all these problems came from.

Real quickly, if I might, I would like to turn to just one audit, no specific audit, just a random audit to give you an idea. I am going to turn to the engineering department. The quarterly Department audit report here, it is from the financial division to the supply officers, via S–1 officer division officer and assistant supply officer.

Subject is supply and equipage 20 quarterly audit report. It gives you the auditor's name, who the auditor was that did this audit, but then it grades each division. OPTAR log filled out correctly, yes or no.

In this instance, it was yes.

Each month closed out properly. Yes or no. Balance corrected in the books, yes or not.

And then in this, this is grading system and what I found through here was time and time again, where I wasn't getting those, I was getting a lot of no's. Date received column should be filled in.

People weren't balancing their books. Since beginning of fiscal year. People just spend, spend, spend, because they didn't know how to balance their books. So, it is a very complex system, the supply system.

Mr. ORTIZ. My question still, any one of the 5,500 individual sailors could still—I mean, they were in a position to go ahead, or does it take an individual who is close to the system to get to it and steal and transfer and sell whatever, or does anybody from top to bottom or in a position to take advantage of the system as it is?

Mr. JACKSON. No; OK, I understand your question better, sir. You have to be in the supply area to manipulate the computers. This is what happened in the Silver Barons of 1983. You do not have to be in supply to steal somebody's money and use somebody else's money to buy your stuff.

That happens all the time.

Those are in here in the evidence referred to as erroneous charges.

Mr. ORTIZ. I certainly appreciate, like we say, the guts that you had to come and testify. You have made a wonderful witness, and let me compliment you on your testimony.

Thank you very much.

Mr. JACKSON. Thank you, sir.

Mr. BENNETT. Mr. Dyson.

Mr. DYSON. Thank you, Mr. Chairman.

Mr. Jackson, you sometimes must feel like the rape victim who is victimized twice. I sometimes sort of see a little bit of that today, you have the act itself and then the questioning of integrity throughout the whole process.

I, too, would like to applaud you for coming forth. I think that it is a very remarkable thing for someone your age to do. It is much easier to not be the squealer and to sort of sit back and I might add that is the better way to become an admiral than it is coming forth.

I was very disappointed to hear that when you called the hotline, they want your name. I was never—I always understood that that was not the thing that happened. I was also very disappointed to

hear, because I have heard this before, that you were told, I wrote these words down as you said them, "I could not go to Congressman Bates," you were told you could go to Congressman Bates, I unfortunately have heard that before in the Navy, and I might add, for those from the Navy that are here today, that there are enough constituents who do come to us, thank God.

I do have a question. I have the impression you trained many people and I am going to call them internal auditors, just for lack of a better name.

In the course of that training that you gave these other people, I assume at some point you probably saw them again or heard stories, so my question is, is the problem that you have discussed today related to the *Kitty Hawk*, is it peculiar only to the *Kitty Hawk*, or is this true, say, in all of our other carriers, or these other areas in which these internal auditors that you trained would serve?

Mr. JACKSON. What I would like to do, sir, is quickly read a course critique of the petty officer who attended my course.

Yes; was the information presented to you useful; if not, state reasons. Yes; learned quite a bit more about the supply system. More in-depth than just your basic 1348 OPTAR.

Were presentations complete? If not, what information should be added. Some more than others. AW-2, very thorough. Flawless presentation, left no questions to be asked. Taught people the basic function of a complex system in a few hours. A true professional teacher.

Mr. DYSON. Mr. Jackson, if I can interrupt, perhaps I haven't made myself clear enough, what I am asking you is if, when the course is finished in the evening, I don't know how it is structured or how you as a teacher conduct it, whether you are all sitting around having a beer and later, somebody says, "Hey, you should see what happened at such-and-such a place," you talk about in your affidavit here, you talk about the silver bars—maybe a whole plane is missing somewhere.

Mr. JACKSON. You are right.

Mr. DYSON. In other words, as you guys got together, did other people come forth in—I don't want to use the word "squealing"—come forth and say, "Hey, this is missing over here, that is missing over there"?

Mr. JACKSON. Well, one of the unique things about me is I am persistent, and when I got a good public relationship with my bookkeepers, is what they are called, not internal auditors, they are bookkeepers, your divisional supply P.O. in layman's terms, they are bookkeepers.

Mr. DYSON. They are the people who would know something is missing?

Mr. JACKSON. That is right, these people would come to me and say, it is Jackson, I can't believe this, but you know, this guy in supply just gave me some converted valves, there is no paperwork on this, I told him I didn't need these things, but he put them in my hand and said take them, anyway, another man comes to me, you are not going to believe this one, I went to get some supplies from the department supply, they just hand me the keys and said go for it.

Then another man comes to me and says, you got to see this one, we have got stuff stockpiled from 1983 and my division officer just told me to throw it all overboard and I have got a brass, I don't know what it is, but it is about 3 feet by 3 feet by 3 feet.

Mr. DYSON. OK, let me interrupt again, I think you can see by the light in front of you we are limited in our time, and is this something—now, let me explain what I mean by that. I think you can understand anything this big operation, in the Departments of Navy and Army and Air Force and the whole Pentagon, some of that is going to happen. I don't know any way to endorse it, and you know anybody is writing this down. I don't endorse that it is wrong, but it is going to happen; that is understandable.

We have had over the last 5 years a tremendous increase in defense spending, just phenomenal. Have you seen an increase of that kind of abuse? You indicated, I think, in your testimony, you have been in the service 8 years, so you would have been through that entire buildup that started, I might add, it started with Carter and certainly was enhanced by President Reagan.

Did you see an increase during that period?

Mr. JACKSON. Sir, I am not qualified to answer that question. However, I would feel that if this Seapower Subcommittee was to do what it did in Miramar, OK, it is a unique thing.

In Miramar, what you found was the land portion, the ashore portion was flawed. I believe if you were to take—remember the *Kitty Hawk* is the best aircraft carrier on the west coast.

I think if I were to do the same thing in Miramar and take the worst aircraft carrier on the west coast and the best and worst on the east coast, then you would get a synopsis, just as in Miramar. Maybe this time, the informants could be not—I am saying people can keep their careers going and still feel free to talk.

As a matter of fact, I would like to reference that Congressman Bates was going to come down to San Diego and do an open house and talk to the informants, but the Navy removed the ship, so he never had a chance.

Mr. DYSON. The timing was very good, wasn't it? Thank you, Mr. Chairman.

Mr. BENNETT. All right, Mr. Bateman.

Mr. BATEMAN. I have no questions, Mr. Chairman.

Mr. BENNETT. Finally, we get to Mr. Bates.

Mr. BATES. Thank you, Mr. Chairman.

Just briefly, I think a lot has been said in the procedures and documentation facts and figures. What I would like to have for the record, if we could, briefly, is to try and get a flavor of some of the comments that you made to me that reflect the problem we talk about, whether it is mechanics or people and with people is an attitude, and I remember in our first meeting, you are explaining to me your discovery of the books being out of balance or of funds that would be short for that quarter.

In other words, a few million dollars so the bills couldn't be paid. Of course, many of us experience that in our daily lives, that we have more bills or more demands than what we can account for or handle, and we have to come up with some way of reconciling that.

When you discovered or brought it to their attention, it would seem to me if you are monitoring the books, you would bring to the

attention of someone in a responsible position, "look, we are going to run short, we have got some problems here." You would expect some kind of response, a cutback on spending, a tightening up, or that would reflect to me, it seems to me, an attitude of those in positions of responsibility.

What did you encounter?

Mr. JACKSON. Again, that is addressed directly in the statement here. What I found was, I would come, after every audit, the very first audit I did was engineering, I said, came back and said, you people gave in the Department three-quarters of a million, and they spent $1.5 million, and $0.75 million is not showing in the computer yet.

So, I went to the stock control officer, my direct boss, and I said, "Sir, here is a copy of the—not only copy of the audit, here is a copy of the receipts from these divisions, hard-core receipts which you have copies in here of."

I said, all we have to do is put these receipts in the system, we will bring up the internal 8207 accounting system to match the books, so everyone will know how much we spent. It was told to me we don't want to do that, it will mess up my storeroom inventories.

That was the first time. The second time the story was given, well, we are going to take care of it, we are going to take care of it, we are going to take care of it. Nothing ever happened.

Mr. BATES. Specifically, the phrase that sticks in my mind, maybe not, I am not referring to the write-ins, when you ran over-budget or you ran out of money, what happened then?

Mr. JACKSON. That was good. The engineering department, it was pre-SMI, supply management inspection. This is when the Navy supply system is graded how well it did. And, the stock control officer came to me and said, "Look, Petty Officer Jackson, those engineering audits don't look too good, why don't you hide them, I don't want COMNAVAIRPAC to see that my Engineering Department exceeded its budget twofold, hide those audits."

And then he said, "Now, to cover that up, so it doesn't look like they blew it, give them money. In other words, you just give them more money, that is how you make it so it don't look like you're overspending your budget."

Mr. BATES. How hard was it to get that money?

Mr. JACKSON. A phone call.

Mr. BATES. You run out of money, you called for more money?

Mr. JACKSON. That is all you do. The internal audit came to the point when I had full department heads calling me, said "Look, Petty Officer Jackson, I know I only have $10,000 left out of the budget, I have to have this $25,000 product, and I know you are the auditor, you are very staunch, can I do that?"

What I would reply to the full commander was, sir, you can do whatever you need to do as long as you can account for going over budget.

Mr. BATES. But the point I am trying to make with respect to the attitude is it was never the end of the line.

Mr. JACKSON. No.

Mr. BATES. In other words, we never ran out of money.

Mr. JACKSON. I would like to reference real quickly the commanding officers' reserve account, because I think this will answer

your question, Congressman Bates, and at the same time, give the Seapower Committee a real good idea what the problem was.

Mr. BENNETT. When you find it, you might identify it so we will be able to find it. Give it a date or whatever it is.

Mr. JACKSON. The exhibit number is No. 25, and it is a quarterly department audit report for Supply and Equipage 20. The date is May 15, 1985. I was the auditor in this instance. I had junior auditors, one man named—well, you will see the names when you look at the evidence.

I was auditor here.

OPTAR log filled out correctly. Remember, this is the commanding officers' reserve account, this is where all the money is supposed to be, but the key here is this account was being held by trained storekeepers, people who are supposed to know what they are doing.

But here is a grading result. OPTAR log filled out correctly, no. Each month balanced, no. Balance corrected in the OPTAR log, no. This division, Division OPTAR log balance, $815,026, to the good.

This is what the trained storekeepers had in the man's account. The balance after the audit, negative $63,000. The balance in the ARV-207 internal accounting system has this division record, at $93,000 to the good.

I think that shows you how bad the system is flawed. The Department said he had $800,000. The internal accounting system said he had $90,000, when the auditor balanced the books, he was $63,000 in the hole.

Then, later, you will see another exhibit enter into the supply officers account.

These are the two major accounts. Both of them were in the hole. Supply officer was $141,000 in the hole. I went to the supply officer and I said, "Sir, if this was a corporation, we would be bankrupt. We have no funds. We are in the hole."

He looked at me and said, "I have all the money in the world." First of all, COMNAVAIRPAC, holds money, so if I go overbudget, I can get that money.

I turned to him and I said, "Sir, I am sure COMNAVAIRPAC would rather spend the money somewhere else, can't we get people to do it correctly, can't we try to trim back on our spending practices, make people keep those old fire nozzles a little bit longer, the answer was business as usual.

Mr. BENNETT. That exhausts all our time, but probably we won't call you back this afternoon, so if there is anybody who would like to ask some other questions, I think as soon as we get through that, then we will adjourn until 2 and have the Navy.

Mr. HUNTER. Mr. Chairman.

Mr. BENNETT. Mr. Sisisky.

Mr. SISISKY. I was going to—maybe I didn't understand something before, you said all you had to do if somebody wanted to get some parts, is go to the telephone, and get permission to get the parts; did I understand that correctly?

Mr. JACKSON. No, sir, but overspent your budget, and you were in the hole, all you had to do was call down, your department head, of course, the department head would call the supply officer and say, "I need some more cash."

But sometimes that didn't even need to be noted because during the pre-SMI, and then in May——

Mr. SISISKY. There was no paperwork handled there, that is hard?

Mr. JACKSON. There is paperwork after a fact.

Mr. SISISKY. But it was paperwork handled there. You are leaving the illusion it was a telephone call and just up in the air. That is hard for me to believe. Let's correct the record.

Mr. JACKSON. OK.

Mr. SISISKY. There was paperwork. There was another question. You have made the statement all through this, I have a difficult time comprehending, I was in the Navy in 1945, so it was a different Navy then, but you were talking to this commander like you were reciting to us, I am telling you, that this is, maybe it is a different Navy, but I cannot imagine an enlisted person talking to officers like that, and directing them.

You are leaving the illusion to me this is what you are doing, step by step. It is hard for me to comprehend that.

Mr. JACKSON. Well, I apologize for illusion. No. I am a respectful man. What it would be, the department heads, there are department heads there where you will find four departments on the ship quite physically responsible.

Those are the department heads that would come down to me. The communications officer, the different departments, and they would come down, and he would say OK, you know, Petty Officer Jackson, this is my problem, and yes, after you help somebody for a while, even though he is a full commander, you are an E–5, you do get to the point that you can talk freely.

Mr. SISISKY. All right.

Mr. BENNETT. Mr. Bateman.

Mr. BATEMAN. Mr. Jackson, in an effort to try to put together the broader implications of some of the things that you have told us, is the root of the problem, as you are describing it to us, that there is a certain degree of laxity and tolerance for not following a system, sloppiness in the accounting procedures or accountability, and that sloppiness has facilitated some isolated, irresponsible people within the system to take advantage of it for their own gain or purposes?

Mr. JACKSON. No, sir. The root of the problem is that the U.S. Navy does not have a standardized training, reporting, or auditing program manual, auditing program for the Supply and Equipage 20 funds.

This is where your problem starts. When your computer flawed and people don't, you can't count on the computer report to tell you how much money you spent. You don't teach nonstorekeepers what they are doing, that is when you have the fault.

The Navy doesn't maybe, or maybe does need $2 billion computer revamping, but I think the simplest thing to do, so this will never or can't happen or will hinder from happening again, is to teach those people, the grassroots, the people who daily interact with supply what they are doing.

Mr. BATEMAN. Well, that to me is saying that there is a serious flaw in the training, that there is a flaw in the system.

Mr. JACKSON. Yes, sir.

Mr. BATEMAN. But aren't you also saying that within such level of training as now exists, within such system as now exists, that even that system is not being properly applied or that there is not much care or attention to even following a flawed system.

Is that a part of your claim?

Mr. JACKSON. Yes, there is no standard training and that tempts people to cheat.

Mr. BATEMAN. Thank you.

Mr. BENNETT. Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

Again, thank you, Mr. Jackson for appearing before us. It occurred to me it is somewhat ironic that you are testifying to Congress about leaders who use smoke and mirrors to balance their budget.

We have got some experts in this city, and so that is not something that is isolated in the Navy. I have, I think, one key problem that we have here, that I think we would like to have your suggestion on is the fact that we do have a readiness challenge, the Navy, unlike the other services is constantly in real operations, and when that guy needs a black box on the plane, you have got to get it off.

I think it is possible to have readiness, and have security, and have a good accountable system. I agree with that premise.

I think the problem is not insolvable, and that we can arrive perhaps at some guidelines. I think perhaps having an outside blue ribbon panel just look at the Navy, take a snapshot and make some recommendations to this subcommittee would not be a bad idea.

But I would like to have your suggestion, and if you want to take some time to lay them out and present some reports to us later, I would like to have your suggestion on how we can simplify the supply system with our technology that is available and with a real program you say we don't have right now.

Mr. JACKSON. Yes, I will follow that with the Seapower Subcommittee later. Right now, I would like to turn to exhibit 17 of the statement.

What you have is people are not trained and they don't know what they are doing, OK. The Navy system of supply is prioritized, in other words, for readiness, how bad do you need this.

If your division bookkeepers don't have an idea of the difference between a priority two, which is like yesterday, I needed the product, and a priority 12, routine, take your time, and he needs a black box, and he puts a priority 12, it is going to slow readiness.

Exhibit 17 is a copy of an audit report. Time and time again, there is actual copies of receipts in here, sir, where the man is putting the wrong information down, not recording corrections in his Optar log from his chit.

In other words, the OPTAR log, he said he ordered a widget, in actuality he ordered a thingamabob, without getting technical.

Incorrect fund codes. The Congress and the Navy, you have to use correct fund codes.

Is this a consumable product, paper, whatever, or is this a repairable product, and in this instance, exhibit 17, you will find where a man had no concept of the fund code. He is trying to put down a repairable item when he should have a consumable item.

Again, that slows the system. The key is if you have people who don't know what they are doing, they put bogus material into a computer, the computer feeds out what it is given.

If the Supply Petty Officers were trained in what they were doing, then the current system, the current computer system, that the U.S. Navy uses, would run smoother because if you put good stuff in, you get good stuff out.

This is the end result of the training courses that I taught. The people were really able now to look and say, I need a priority 12 or need priority 2. Before they didn't have a concept of what the priority was.

Mr. HUNTER. Thank you, Mr. Chairman.

Mr. BENNETT. We will have to go vote now, and unless there is a very urgent question, I don't believe there are any, so we will come back at 2 p.m., and at that time, the Navy will testify.

[Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene at 2 a.m., the same day.]

AFTERNOON SESSION

STATEMENT OF COMMODORE JAMES B. WHITTAKER, ASSISTANT COMMANDER, INVENTORY AND SYSTEMS INTEGRITY, NAVAL SUPPLY SYSTEM COMMAND, DEPARTMENT OF THE NAVY

Mr. BENNETT. We are honored today to have with us Commodore James Whittaker, Assistant Commander, Inventory and Systems Integrity, Naval Supply System Command of the Navy, and we are glad to have you. You have done a good job in the Navy, and it is great to have you here to tackle this tough question.

Commodore WHITTAKER. Thank you.

Mr. BENNETT. You may proceed as you wish.

Commodore WHITTAKER. Thank you, Mr. Chairman.

Because of the seriousness of the charges, I will go through in some detail and discuss some of these allegations throughout this testimony. I won't go through all my testimony, but I will dwell on some of the issues that have been brought forth in the last several hours of testimony.

Mr. BENNETT. We will put your entire statement in the record. We would like to hear from you as you desire.

Commodore WHITTAKER. The Naval Supply System Command has direct responsibility for the operation of a variety of supply activities throughout the Navy. We also have responsibility for Navy supply system policy.

We are here today to discuss the Navy supply system and concerns that there may be systemic problems with our system. I will address allegations that the supply system is in "* * * shambles and that, as a result, our readiness * * * our national security * * * is less than adequate." It is alleged that F-14 parts have been stolen by an Iranian theft ring. It is also alleged that there is general supply mismanagement in U.S.S *Kitty Hawk*. Finally it is alleged that our computer systems are extremely vulnerable. I particularly appreciate this opportunity to present information which will serve to put these issues in their proper perspective.

I will begin by discussing how the Navy is ready to fight and protect our national interests. I will do this by providing you with

actual aircraft and ship readiness data over the last 5 years and by highlighting specific examples of aircraft availability during the recent Grenada and Lebanon operations. I will then provide you with an overview of the Navy supply system, both in a macrosense as a total system and in a microsense on an aircraft carrier, where typically we manage 100,000 spare parts valued at $230 million.

Next I will review the problems that have generated from the Iranian theft ring, the *Kitty Hawk* supply operation and computer vulnerability allegations. I will identify whether allegations are substantiated, either partially or totally, and whether they are unique to individual activities or have systemic implications. For each valid allegation, I will tell you what we are doing to fix the problem and will identify any resource requirements involved in this resolution. I will conclude with a summary and answer any questions you may have.

READINESS

First let me discuss the supply system in terms of our readiness to fight. Today, the Navy is operating at a tempo higher than during the Vietnam War and the major readiness indicators show we are doing it considerably more effectively. Let me give you some examples. We use mission capable and full mission capable rates to measure both aircraft and weapons systems readiness. Since 1981, these rates for deployed aircraft have improved 20 and 61 percent, respectively, while the subset of aircraft deployed on carriers have improved 15 and 43 percent. This means that in 1985 we are flying, on each deployed carrier with an average deckload of 85 aircraft, an average of eight more aircraft per day that are mission capable than we flew in 1981. This also means that, on average for all deployed carrier aircraft, 13 more aircraft are full mission capable as compared to 1981.

At the same time, the number of supply system requisitions for mission degrading material has declined 68 percent. This means that today, when an aircraft is downed for parts, two-thirds more of the requirements previously obtained ashore are available from supply stocks onboard the ship than were capable of being provided in 1981.

We also measure equipment downtime on ships. Since 1981, while the fleet size has increased by 19 percent, the equipment downtime has decreased by 50 percent. Correspondingly, the average customer wait time for parts needed to correct major equipment downtime has decreased by 25 percent. This means, on average, that when vital equipments need parts in order to be restored to a mission-ready status, our ships wait 25-percent less time in 1985 than in 1981 for these parts to arrive from the supply system.

Another key readiness measure we use for ships is time free of C3 and C4 CASREPS. C3 and C4 CASREPS are those systems casualties which make one of its major systems totally inoperative or that can keep a ship from getting underway. Again, since 1981, the timefree of these critical CASREPS has improved by 42 percent. These improvements in our capabilities are substantial and have been made possible by the fine support of the Congress in general and this subcommittee in particular.

Recently, in analyzing the Atlantic Fleet's 1984 performance, its Commander-in-Chief, Adm. Wes McDonald, stated that for his aircraft carriers, "* * * material availability is no longer the pacing factor regarding surge [or war fighting capability]." In that regard, at any point in time the Navy supply system is providing sustained support for eight battle groups deployed around the world to ensure they are operationally ready.

Let's just briefly review one typical battle group and its recent performance under difficult conditions. The *Independence* battle group started its 1983-84 deployment in Norfolk and spent 158 of its next 176 days at sea. During that time, the *Indy* battle group provided support for the Grenada operation, flew air strikes on Lebanon, and tested her capability in a cold weather NATO operation in the North Atlantic. During this cruise, she averaged 82-percent mission capable and 78-percent full mission capable rates for her aircraft. She deployed with zero CASREPS and returned with only one. At all times she stood fully ready as an arm of national policy. She not only demonstrated seapower around the globe, but she was the epitome of a higher order of capability, that is, "stay at sea power".

Today we are improving further on these impressive performance indicators, as shown by *Kitty Hawk's* current readiness in the Indian Ocean. As of last Monday, her air wing had 72 of her 80 aircraft mission ready to support flight operations with only 24 off-ship requisitions for mission degrading material. The success of this system is directly attributable to the responsible legislative and executive branch's efforts over the last several years to rebuild the Navy to a level where it stands ready to perform its missions. Without question, from a readiness viewpoint, we are in the best shape to meet our national commitments that we have been for over a decade.

Up to this point, my remarks have addressed the question of the readiness and capability of the Navy supply system to support sustained high tempo operations. I will now address the structure of the Navy supply system.

NAVY SUPPLY SYSTEM

The Navy supply system is the network of organizations which interact to accomplish the vital function of keeping the Navy operationally ready. As the Navy's principal logistics organization, the Naval Supply Systems Command [NAVSUP] is responsible for the development, management and operation of the Navy supply system.

Supply support in the Navy is big business. In performing our mission, NAVSUP directly employs over 2,100 military personnel and over 50,000 civilians. Our annual operating budget is $1.3 billion. The system we oversee includes a $23 billion inventory program to meet over 23 million annual material requests. We process greater than $50 billion in material receipts and issues annually. We manage a transportation network which moves over 1.7 million tons of cargo annually and a fuel system program that delivers over 2.7 billion gallons annually to operating forces throughout the world.

Our field contracting system comprises over 900 shore activities which handle 2.5 million transactions a year, worth $10 billion. The Navy Resale System, which includes over 600 Navy exchanges, ships' stores, Navy lodges and commissary stores, generates annual sales over $2.3 billion. In addition to our extensive supply system responsibilities, we also sponsor and support the military and civilian supply career development process. There we provide policy guidance for the training, professional development and assignment of our 4,700 Supply Corps officers, as well as the professional training of 41,000 enlisted men and women serving in various supply ratings.

The Navy supply system stocks more than 1 million different items to support naval ships and aircraft. The primary stockage is in naval supply centers. San Diego, Charleston, and Norfolk are the big fleet concentrations where we have our large naval supply centers.

However, I would now like to take a few moments to describe the supply mission aboard an aircraft carrier such as *Kitty Hawk*. The magnitude of the entire supply operation on board a carrier is evident in almost any statistic. For example, over 10 tons of food are consumed each day; the ship's stores generate daily sales of $20,000; the biweekly payroll approximates $1 million; and storage capacity exists for 5 million gallons of fuel. There are numerous other equally impressive statistics, but all of them can be characterized in one word—"big."

Probably the most impressive of all the supply functions on a carrier is spare parts management. Annual throughput of issues and receipts approximates $1 billion for an operational carrier. Each carrier stocks approximately 100,000 different line items, valued from $200-$300 million, depending on the number and types of aircraft supported.

Considering the multiple quantities stocked for many of the individual line items, the actual number of parts on board is in the millions. These items are stored in approximately 75 storerooms in approximately 30,000 individual locations. In short, the spare parts business of each carrier is comparable to a large business.

The magnitude of the operation is even more impressive when one considers the carrier environment. The hectic operating tempo and inventory resupply disruptions constantly impact spare parts management. When material is delivered, it comes in a sporadic fashion resulting in a fluctuating receiving workload. It is not unusual at sea to receive up to 1,000 pallets of material in a 5-hour period from several ships via vertical replenishment by helicopter, as well as by high line from a resupply ship alongside.

Material must then be immediately cleared from the flight deck and hangar areas so that the carrier can return to her basic mission and commence flight operations. This can be as quickly as 2 hours after the last pallet hits the deck. In addition, issues are made continually, 24 hours a day. Thus, with approximately 500 daily issues, someone is breaking out and delivering material every few minutes around the clock on an operating carrier. Many of these issues are required within minutes to satisfy an imminent launch of aircraft.

The fast pace of spare parts management continues when the ship returns from deployment. At the end of every carrier operating cycle, the entire range and depth of aviation items supporting the carrier's air wing is reviewed and inventoried to ensure the deckload of aircraft will be properly supported during the next deployment. Excesses are turned in, deficiencies are identified and ordered and then material is received and loaded on board, all in a compressed timeframe necessary if the ship is to meet the commencement of its next operational cycle. The bottom line is that spare parts management is a never-ending process both at sea and in port.

Managing this highly complex function is a tough challenge. Operating the system efficiently requires thorough and continuous management of the details. I think we are doing exactly that. We have concentrated our efforts and directed our available resources on our high cost aviation repairables where we get the maximum payoff both in terms of readiness and accountability.

For example, maximum management focus is directed at 250 high cost, high usage aviation repairables, known as the rotatable pool. These 250 items, which are less than 1 percent of a carrier's total number of line items carried, account for approximately 31 percent of the dollar value of the inventory. To provide perspective on performance statistics, a carrier recently was able to immediately issue these high-cost aviation repairables 99 percent of the more than 7,000 times that they were requested during her last deployment.

Intensive inventory management procedures are applied to all repairable items and other critical categories, and this enables us to bring a total of 85 percent of the inventory dollar value under stringent control. For example, all high-cost repairables are generally stowed in segregated storerooms. Additionally, special standards and requirements have been applied to our nuclear reactor support material. Our nuclear carriers deploy with 100 percent of all nuclear reactor spare parts on board and issue effectiveness generally exceeds 99 percent on this small—6,000-7,000 items—but critical segment of the inventory.

I have taken time to describe the demanding supply environment aboard a carrier in order to provide some necessary perspective. We know we have problems brought about by this environment, and we are constantly working to provide better management tools so that the supply operation can perform as efficiently as possible. Now I will address various allegations.

ALLEGATIONS OF IRREGULARITIES

Numerous allegations of irregularities, improprieties, weaknesses and outright criminal actions aboard U.S.S. *Kitty Hawk* and within the supply system in general have been aired in recent months. The exposure of a theft ring which was providing aircraft parts to Iran and the subsequent arrests of seven people, one of whom was a petty officer from U.S.S. *Kitty Hawk,* cast specific doubts regarding both physical security and computer system vulnerabilities.

IRANIAN THEFT ALLEGATIONS

In addressing these allegations, first let me discuss the Iranian theft ring. Allegations involving the Iranian theft ring focus on: vulnerability of supply computer systems to outside hackers; vulnerability of supply system inventories to physical theft; compromise of F-14 weapon systems as a result of the theft of classified spare parts.

The acts which spawned these allegations have and are being dealt with by various Federal law enforcement agencies. What I want to address here are not the acts themselves, but rather what they portend for the supply system.

VULNERABILITY TO HACKERS

In all major business data processing applications, including the Navy's supply system, computer security is an integral element of the hardware and software design. An "outside hacker" would not only be faced with difficulty in entering supply system computers, but would also have to have knowledge of the complex series of requisitioning codes which are required to obtain material. Based on our recent assessment, we believe we are not vulnerable to diversion of material by outside hackers. There is no evidence to date which would cause one to conclude that our computers have been penetrated by outside hackers. There is, however, evidence of illegal material requisitioning by knowledgeable insiders, and I will address our actions to deter these acts later in my statement.

VULNERABILITY TO PHYSICAL THEFT

In the March/April 1983 timeframe, the U.S. Customs Service and the FBI initiated investigations into the alleged theft of U.S. Navy spare parts for utilization in Iran. The FBI investigation documents show that the thieves shipped 45 different types of material totaling 277 pieces. All parts involved the F-14 aircraft but no Phoenix missile parts were involved in the thefts. As none of those arrested has made a substantive statement, the means and methods utilized to perpetrate the thefts are still not known. However, we can say with reasonable surety that the thefts were perpetrated by insider personnel who had access to parts or the means to order them as part of their employment.

WEAPON SYSTEM COMPROMISE

We have carefully reviewed the FBI listings of material stolen by the ring and have completed inventories of all classified F-14 spare parts. We also inventoried all Phoenix missile classified parts because of a press statement saying they were involved in the case. The inventories showed that the supply system is not missing any F-14 or Phoenix classified spares. Renewed emphasis is nevertheless being placed throughout our system on absolute conformance to existing classified inventory management procedures. Further, we have worked with the Navy intelligence community to determine other spares targeted by outside interests. We will add these items to those normally managed with intensified security measures.

On balance, review of the Iranian theft situation confirmed we are adequately protected against external subversion unless knowledgeable insiders assist the outsiders. Consequently, we must strengthen our protection against such situations.

CORRECTIVE ACTIONS

I will now discuss specific corrective actions we are taking to tighten physical security.

Our clear and fundamental challenge is to tighten physical control over our material and establish an atmosphere which operates to deter and prevent theft. We recognize it is tough to control everyone and that there will be individuals who will attempt to test the system. Our principal thrust is to promulgate a strict code of personal ethics for all personnel who have direct responsibility for the management and accountability of material, financial records and computer data. We think that is the initial step that we must take from a personnel standpoint.

There are nine other major initiatives we also think we should take from a physical security standpoint.

One, high-cost repairable and other critical assets are being consolidated in a few select storerooms aboard ship. Access will be limited to a small select group of accountable custodians.

Two, increased Naval Investigative Service [NIS] staffing to provide more supply operations investigations.

Three, we have already established a communication link with the Naval Investigative Service to ensure the supply community is kept abreast of any item considered particualrly susceptible to theft.

Four, signature service transportation of high-cost and critical spares is being implemented.

Five, security is being tightened at all other areas where material is either transported and/or temporarily staged, and at all points of egress such as shipboard conveyors, cranes, elevators, mail and trash.

Six, shipboard security is being tightened in all ADP spaces and spaces with terminals.

Seven, classified inventory procedures are being reemphasized and random inventories of all repairables are being increased.

Eight, we are developing an up-front ADP edit capability that will lock out unauthorized users for targeted weapon systems. Additionally, we are utilizing theft detection software to scan customer requisitions, on an after-the-fact basis, looking for unauthorized material diversions.

Nine, we are developing a reliability screening program for all of our storekeepers and other personnel in accountable positions.

These physical security measures, coupled with data processing developments, discussed later in this statement, will serve to provide a more comprehensive deterrent package to would-be thieves and thereby more fully protect the material in our custody.

Now I will address the allegations concerning supply operations aboard *Kitty Hawk*. The official Judge Advocate General [JAG] manual investigation has been reviewed by the Chief of Naval Op-

erations and is the basis for my comments on the allegations. Seven of the allegations are unsubstantiated.

There was no fraudulent preparation of off-load documents.

There was no coverup of improper purchasing--contractor work.

There was no fraudulent OPTAR log maintenance.

There were no illegal kickbacks from corporate representatives doing business with the ship.

There was no black marketing of stolen U.S. property onboard U.S.S. *Kitty Hawk*.

There was no fraudulent 1983 budget OPTAR report.

There were no improper accounting procedures. However, some allegations were substantiated.

Mr. BENNETT. You said black market—that is inconsistent with regard to Iran, is it not? What distinctions are you drawing there? Wasn't that black market?

Commodore WHITTAKER. Mr. Chairman, there are no parts that I am aware of from any source from the *Kitty Hawk* that have gone to Iran. There is no evidence to show—

Mr. BENNETT. That is the first I knew that. I thought you said a moment ago there was some that went to Iran.

Commodore WHITTAKER. No, I did not.

Mr. BATES. Where did it go?

Mr. BENNETT. Well, I guess I just didn't hear you well because I thought you said that you told us that there was no compromise of security—pardon me, no compromise of any weapon system, but I thought that was sort of an affirmation of the fact that some material had gone to Iran.

Mr. HUNTER. I think the equipment went to Iran, but I think they said early on that it came from another source.

Mr. BENNETT. It didn't come from the *Kitty Hawk*. We are not restricting this hearing to the *Kitty Hawk*, are we?

Commodore WHITTAKER. No, I am not trying to restrict it. I am trying to say that the F-14 parts to Iran, we have checked that, and they did not come from the *Kitty Hawk*.

Mr. BENNETT. They came from some other Navy source?

Commodore WHITTAKER. Yes.

Mr. BENNETT. I see.

Mr. BATEMAN. Has that source been identified?

Commodore WHITTAKER. Yes, sir, that source has been identified, but I am not at liberty to discuss any details because of the Justice problem.

Mr. BATEMAN. I don't need it identified here. I was curious whether, in fact, it had been identified as a source other than the *Kitty Hawk*.

Commodore WHITTAKER. Yes, sir, it has, and I can't say all sources have been identified, but some sources have been.

Now I would like to address those allegations substantiated or partially substantiated by facts.

There were forged signatures on survey documentation. The survey forms were prepared after a representative from the Type Commander's staff advised that a previously and properly executed blanket survey of inventory variances would not be acceptable for an upcoming supply inspection. The stock control officer falsely entered the signature of the designated survey officer in block 3 of

the form. Block 3 does not require a signature. His motive for this action appears to be one of expediency—not wanting to obtain 1,520 signatures. These signatures were made without criminal intent and under conflicting guidance. However, the officer unquestionably used poor judgment and faces disciplinary action. Navy survey procedures will be clarified. There was no personal gain by any individual in this action.

There were improper open purchase practices—contractor work. There were incorrect practices in the open purchase function, including inadequately documented purchase actions and actions that were not in accordance with current procurement regulations. Disciplinary action is being considered for the participants in the purchasing function. The problems on *Kitty Hawk* resulted from inaccurate recordkeeping and file maintenance, inadequate staffing and training, misuse of the imprest fund, and, in general, failure to follow established purchasing procedures.

Actions have been taken by the chain of command to correct those procedural problems within their control. Extensive purchasing guidance has been issued. Commanding officers have been directed to place tighter controls over their purchasing operations to ensure that purchasing procedures are scrupulously followed and to establish desk guides for technical screening and buying personnel. Commanding officers have also been directed to limit the use of their purchase authority by relying upon ashore purchasing support to the maximum extent possible. Quota requests for small purchase training are being made available to ensure shipboard purchasing personnel receive adequate purchasing training.

The Buy-Our-Spares-Smart [BOSS] Program, as well as several other purchase initiatives designed to improve the purchasing function in Navy, directly address many of the same problems found on *Kitty Hawk*. These programs focus on improving pricing, increasing competition, improving training, and strengthening oversight of the purchase function. Results of these programs in terms of strengthening the purchase function have been impressive, and we are taking steps to transfer ashore the majority of our afloat purchase workload. This will both take advantage of our improved ashore purchasing procedures and will also remove the major part of the purchasing function from a shipboard environment and its hectic operating tempo.

Carriers will, of course, retain contracting authority necessary to accomplish the purchase function both overseas and also in emergency situations when operating in CONUS. Actions to transfer the function are already underway. At some stock points, we have set up small waterfront purchasing branches which are providing ships with dedicated purchasing support. We will do that in the next 30 days at all major tidewater locations.

To fully process the increased workload ashore, however, will require additional resources. Specifically, we will need 360 additional procurement, contracting management review and technical personnel, along with increased support funding.

Mr. HUNTER. You are going to have to take on additional personnel ashore. Wouldn't you be relieving a number of personnel essentially doing this on the ship at this time?

Commodore WHITTAKER. Mr. Congressman, we feel that the way to do the procurement function right, in this environment, is a very complex function. As you can see by the changes in the law, in the last several years, the way it was done aboard ship in the past was not entirely appropriate. So there will be more persons necessary to do the function ashore.

Mr. HUNTER. What you are saying, the function is becoming more complex as well as moving ashore, and it is going to take more people?

INSTANCES OF FISCAL IRRESPONSIBILITY

Commodore WHITTAKER. Yes, sir.

Next, there were instances of fiscal irresponsibility. There are numerous allegations under this heading, but there are two considered to have substance. There is reason to believe that an officer ordered textbooks for personal use. This officer has been directed to pay for the cost of the books. Second, there were inaccuracies between OPTAR log financial records and computer financial records. I discussed this issue and corrective action earlier in this statement.

There is no evidence of general fiscal irresponsibility on board *Kitty Hawk*. For example, the Engineering Department was alleged to have overspent its quarterly OPTAR by $500,000. This was done using the following quarter's OPTAR with the Commanding Officer's approval in order to topoff inventories prior to deployment. There is no evidence that the Electrical Division stocked material that was not intended to be used in Fiscal Year 1983. The stocking of material based on anticipated failure rates is prudent inventory management.

There was improper handling of material. The handling of material on *Kitty Hawk* is generally effective. There is reason to believe, however, that on one or two isolated instances during the *Kitty Hawk's* fiscal year 1984 WESTPAC deployment, an improperly supervised working party threw material over the side because of pressure to clear the deck for flight operations. This was not a routine or an accepted practice on *Kitty Hawk*, but an unacceptable occurrence. *Kitty Hawk* has taken action to improve supervision of underway replenishments.

There was also an incident where an unauthorized petty officer was given the keys to a storeroom to break out his own supplies in direct contradiction to *Kitty Hawk* procedures.

In 1983, there was an incident in which silver anodes were stolen on board *Kitty Hawk*. NIS investigated the incident and, as a result, one petty officer was charged and has been awarded a court martial. The investigation is still ongoing to find other individuals involved. Further, issue restriction codes have been established in the supply system to prevent the automatic issue of this material without proper authorization.

It has also been alleged that *Kitty Hawk* lost or had stolen $14 million in spare parts. The $14 million in question is the initial difference between the *Kitty Hawk*'s computerized inventory records and its predeployment storeroom inventory count. It is the result of purifying and updating *Kitty Hawk*'s inventory and records during

the turn-around cycle between two deployments to the Western Pacific and Indian Oceans. The staff of the Commander, Naval Air Force Pacific Fleet and a team of financial inventory experts, through a reconciliation process, have reduced the $14 million to $5.9 million; further reductions are anticipated as we expand the reconciliation process to supply system records ashore. The $8.1 million correction is predominently due to human error associated with managing a highly volatile $230 million inventory. Most of the remaining $5.9 million is also considered to be human error and the reconciliation will continue to find these errors.

As an additional effort, the list of parts has been compared to the FBI listing of Iranian theft, and there are no matching items. This effort still does not satisfy the possibility that the Iranians got F-14 parts from the *Kitty Hawk* that were not on FBI listings. To address this conjecture, we have taken the F-14 parts on the *Kitty Hawk* listing and are conducting a cradle-to-grave (beginning inventory to current inventory) systemwide audit to determine if there have ever been any losses. This audit will take a considerable amount of time since it spans 15 years.

The final allegation I will address is that the age, complexity and saturation of our automated data processing systems are systemic problems making the supply system more susceptible to penetration and manipulation.

COMPUTER SYSTEMS VULNERABILITIES

The need to modernize and improve the security of our logistic computer systems was recognized by the Navy several years ago, and, in fact, we have comprehensive, ongoing programs already authorized and budgeted to satisfy these critical requirements. We have taken a hard look at these programs to discern how we can better use our automated tools to heighten security awareness and deter theft.

In the late 1970's we recognized that many of the longstanding problems in performing our spare parts functions had their roots in our obsolete computer systems. Our main battery of ADP equipment used for logistics management aboard our ships and ashore at our supply centers and inventory control points was mid-1960's vintage with neither sufficient computing capacity nor modern technical capabilities to support our high-volume accounting requirements. The inventory and financial accounting systems had become extraordinarily complex and cumbersome. The systems were also very reliant on paperwork and keypunch processes to get information into them. Primitive security access control software, primarily designed for operations inside the computer spaces, provided only minimal protection for permitting electronic access to our data via video display terminals. The inefficiencies in conducting our business caused by our museum-eligible ADP hardware and software were highlighted by the President's Private Sector Survey on Cost Control in 1983.

We are now engaged in one of the largest computer modernization programs undertaken by the Government sector. Complete replacement of our computerized systems is a high technology, long-term effort. We are using a three-phased approach to mimimize

risk for resystemizing the automated logistics systems both afloat and ashore. First, replacement ADP equipment is being competitively acquired and installed. Second, current application software is being transitioned to the new, faster hardware. Lastly, application software systems are being redesigned taking advantage of the state-of-the-art machine capabilities.

Looking first at shipboard data processing, in June, 1982, a contract valued at over half a billion dollars was competitively awarded for the Shipboard Non-Tactical ADP Program I (SNAP I), which includes replacement computer systems for our carriers, tenders and fleet resupply ships. The initial computer configurations have been installed on board 60 of the 61 targeted ships, and the existing batch processing software is now running on the new equipment.

This approach provides sufficient computer capacity to get today's work processed today and has significantly reduced computer down time which has plagued timely posting of inventory transactions. Interim releases of redesigned application software systems are now being implemented and ships will have significantly improved inventory and financial accounting tools starting in April 1986. These systems will permit authorized users to input information directly on-line with edits, validation and error correction of input data being performed on a real time basis.

Similarly, the Shipboard Non-Tactical ADP Program II (SNAP II) contract was awarded in November, 1981 to install computer systems on the remainder of our ships and submarines which were previously entirely manual operations for supply-related functions. These computer systems have already been installed in over 90 of the 450 units targeted for installation. Supply and financial accounting software modules, along with modern security access systems, are key segments of the initial implementations.

Moving to the shore environment, we are 8 years into a 12-year computer system modernization effort at our two Navy inventory control points. A several hundred million dollar, 8-year contract was competitively awarded in February 1984 for this program, familiar to some of your colleagues as ICP resolicitation. Technology refreshment options were included to avoid obsolescence pitfalls. Modern hardware has now been installed and all present application software systems will be fully transitioned to this state-of-the-art environment. Implementation of the functionally redesigned systems is slated for March 1989.

These new online systems represent a quantum leap forward in the capabilities to control our wholesale inventories as well as configuration management of our shipboard and aviation weapons systems. Commercial data management software packages will yield dramatic improvements in data analysis and accuracy. The implementation of the resource access control facility software, one of only two software products currently accredited by the Computer Security Center of the National Security Agency, will establish strict accountability for the use of our information resources. The ICP Resolicitation Program has also installed state-of-the-art hardware to isolate all of our classified processing requirements, minimizing data exposure risks.

We are 5 years into a 14-year computer modernization effort at our Navy stock points. This stock point ADP replacement (SPAR)

project is in the late stages of the acquisition phase with competitive contract award expected by January, 1987. This initiative replaces hardware at 40 sites, including Naval supply centers, Marine Corps air stations, Naval air stations, Navy regional data centers and Navy construction batallion centers which provide supply-related ADP support to over 90 shore activities. The SPAR policies and concepts stress asset accountability, data security, technology refreshments and audit trails. The decision to support software delivered in this program will significantly improve control of our inventories.

We recognized at the beginning of this decade that we could not wait until the late 1980's to make substantive improvements via the SPAR process. There are several other things in here which show what we have done in the meantime to make sure that we have the best control of our information and material that we can. I will not go through the details, but they allow for asset visibility and online research.

The modernization of and interim upgrades to our current logistics computer systems have strengthened our ADP security practices. Effective identification and authentication software is now installed on our ADP systems, and all reasonable measures have been taken, given the tradeoff between security and productivity. Our systems' vulnerability to access or manipulation by hackers is low as confirmed by a series of penetration drills. Our highest risk is insiders who are authorized access to our information resources and can divert spare parts through collusion with separate work group personnel. As indicated earlier, we are stepping up use of both theft prevention and theft detection software techniques to address this insider risk. These techniques dovetail with our physical security and reliability initiatives.

In summary, today I have explained the fundamentals of how the supply system works, both in general and more specifically aboard an aircraft carrier. I have shown the dramatic readiness improvements that we have realized with the strong and continuing support of this committee. I have also tried to provide a basic understanding of the size and complexity of the system and the effect of the operational tempo on the afloat supply environment. My intent was to place in context both the ashore and afloat supply systems while addressing the critical allegations that have been raised over the last several months. I discussed those relating to readiness and theft of spare parts for Iran; those relating to *Kitty Hawk*; and, finally, computer vulnerabilities. My discussion of the NIS and Justice investigations has been limited to those aspects that will not damage the current case against the individuals accused.

From the Iran theft situation, we have learned that no classified F-14 or Phoenix missile parts were stolen and that there is a very low probability of outsider computer penetration. However, we did learn that we are vulnerable to a knowledgeable system operator who is in collusion with another insider capable of receiving the parts. This showed us that physical security had to be reemphasized and our abilities to deter insider theft needed to be strengthened.

We are promulgating a strict code of personal ethics for all material and financial managers, both officer and enlisted. We are placing tighter control on the most expensive, and any foreign power targeted, repair parts. The storekeepers and computer operators who manage and control these critical assets will be placed in an integrity program similar to what we use to screen and maintain quality among our nuclear personnel. Also we will increase the number of supply operations investigations in order to build an environment that thwarts thieves. In short, we are taking the theft situation very seriously.

In analyzing the allegations about the supply system aboard *Kitty Hawk*, we learned that a number of allegations were unfounded. There was no fraudulent preparation of offload documents, no coverup of improper purchasing, no fraudulent OPTAR Log maintenance, no kickbacks from commercial representatives, no black marketing, and no fraudulent 1983 Budget OPTAR Report.

Unfortunately, however, we did find some factual allegations, and these we are pursuing. Most involved individual poor judgment with no criminal intent or failure to follow established procedures. In addition, the afloat purchasing problem showed an area we need to concentrate on throughout the system. We have tackled this one with vigor and will move the majority of the afloat purchasing effort ashore. This solution will result in a requirement of about 360 people to staff pierside facilities so that they can respond to the afloat needs in a timely and correct manner. This action will place this function where it more properly belongs, in the shore support establishment, away from the hectic atmosphere of day-to-day shipboard operations.

I also discussed the long-term modernization effort that we have undertaken to bring our computer systems, both afloat and ashore, into the modern world. These systems are key to our improved management capabilities with regard to control of the scarce assets provided by the taxpayer. These systems not only have the ability to tighten our accounting and provide better control of our assets, but because of their design will increase our system security.

Without question, our recent introspective look has assured us that the foundation of the Navy supply system, both afloat and ashore, is sound and that our readiness is the highest it has been in a decade. However, this critical review has also provided insight into a number of problems which require immediate and effective corrective action. In this regard, we have learned much. We have assessed our vulnerabilities and are taking the immediate corrective actions I have discussed, along with many others, and are incorporating lessons learned into our system modernization efforts.

Gentlemen, that completes my prepared statement. I appreciate the opportunity to address the committee. I am ready to answer any questions you may have.

56-608 O—86——3

PREPARED STATEMENT OF COMMODORE JAMES B. WHITTAKER

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM COMMODORE JIM WHITTAKER, ASSISTANT COMMANDER FOR INVENTORY AND SYSTEMS INTEGRITY AT THE NAVAL SUPPLY SYSTEMS COMMAND. WE HAVE DIRECT RESPONSIBILITY FOR THE OPERATION OF A VARIETY OF SUPPLY ACTIVITIES THROUGHOUT THE NAVY AND ARE ALSO RESPONSIBLE FOR THE DEVELOPMENT OF NAVY SUPPLY SYSTEM POLICY.

I AM HERE TODAY TO DISCUSS THE NAVY SUPPLY SYSTEM AND CONCERNS THAT THERE MAY BE SYSTEMIC PROBLEMS WITH OUR SYSTEM. I WILL ADDRESS ALLEGATIONS THAT THE SUPPLY SYSTEM IS IN ". . . SHAMBLES AND THAT, AS A RESULT, OUR READINESS . . . OUR NATIONAL SECURITY . . . IS LESS THAN ADEQUATE." IT IS ALLEGED THAT F-14 PARTS HAVE BEEN STOLEN BY AN IRANIAN THEFT RING. IT IS ALSO ALLEGED THAT THERE IS GENERAL SUPPLY MISMANAGEMENT IN USS KITTY HAWK. FINALLY, IT IS ALLEGED THAT OUR COMPUTER SYSTEMS ARE EXTREMELY VULNERABLE. I PARTICULARLY APPRECIATE THIS OPPORTUNITY TO PRESENT INFORMATION WHICH WILL SERVE TO PUT THESE ISSUES IN THEIR PROPER PERSPECTIVE.

I WILL BEGIN BY DISCUSSING HOW THE NAVY IS READY TO FIGHT . . . AND PROTECT OUR NATIONAL INTERESTS. I WILL DO THIS BY PROVIDING YOU WITH ACTUAL AIRCRAFT AND SHIP READINESS DATA OVER THE LAST 5 YEARS AND BY HIGHLIGHTING SPECIFIC EXAMPLES OF AIRCRAFT AVAILABILITY DURING THE RECENT GRENADA AND LEBANON OPERATIONS. I WILL THEN PROVIDE YOU WITH AN OVERVIEW OF THE NAVY SUPPLY SYSTEM, BOTH IN A MACRO SENSE AS A TOTAL SYSTEM AND IN A MICRO SENSE ON AN AIRCRAFT CARRIER . . . WHERE, TYPICALLY, WE MANAGE 100,000 SPARE PARTS VALUED AT $230 MILLION. NEXT, I WILL REVIEW THE PROBLEMS THAT HAVE GENERATED FROM THE IRANIAN THEFT RING, THE KITTY HAWK SUPPLY OPERATION AND COMPUTER VULNERABILITY ALLEGATIONS. I WILL IDENTIFY WHETHER ALLEGATIONS ARE SUBSTANTIATED, EITHER PARTIALLY OR TOTALLY, AND WHETHER THEY ARE UNIQUE TO INDIVIDUAL ACTIVITIES OR HAVE SYSTEMIC IMPLICATIONS. FOR EACH VALID ALLEGATION, I WILL TELL YOU WHAT WE ARE DOING TO FIX THE PROBLEM AND WILL IDENTIFY ANY RESOURCE REQUIREMENTS INVOLVED IN THIS RESOLUTION. I WILL CONCLUDE WITH A SUMMARY AND ANSWER ANY QUESTIONS YOU MAY HAVE.

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READINESS

FIRST, LET ME DISCUSS THE SUPPLY SYSTEM IN TERMS OF OUR READINESS TO FIGHT. TODAY, THE NAVY IS OPERATING AT A TEMPO HIGHER THAN DURING THE VIETNAM WAR AND THE MAJOR READINESS INDICATORS SHOW WE ARE DOING IT CONSIDERABLY MORE EFFECTIVELY. LET ME GIVE YOU SOME EXAMPLES. WE USE MISSION CAPABLE AND FULL MISSION CAPABLE RATES TO MEASURE BOTH AIRCRAFT AND WEAPONS SYSTEMS READINESS. SINCE 1981, THESE RATES FOR DEPLOYED AIRCRAFT HAVE IMPROVED 20 AND 61 PERCENT (ATTACHMENT A), RESPECTIVELY, WHILE THE SUBSET OF AIRCRAFT DEPLOYED ON CARRIERS HAVE IMPROVED 15 AND 43 PERCENT (ATTACHMENT B). THIS MEANS THAT IN 1985 WE ARE FLYING, ON EACH DEPLOYED CARRIER WITH AN AVERAGE DECKLOAD OF 85 AIRCRAFT, AN AVERAGE OF 8 MORE AIRCRAFT PER DAY THAT ARE MISSION CAPABLE THAN WE FLEW IN 1981. THIS ALSO MEANS THAT, ON AVERAGE FOR ALL DEPLOYED CARRIER AIRCRAFT, 13 MORE AIRCRAFT ARE FULL MISSION CAPABLE AS COMPARED TO 1981. AT THE SAME TIME, THE NUMBER OF SUPPLY SYSTEM REQUISITIONS FOR MISSION DEGRADING MATERIAL HAS DECLINED 68 PERCENT (ATTACHMENT C). THIS MEANS THAT TODAY, WHEN AN AIRCRAFT IS DOWNED FOR PARTS, TWO-THIRDS MORE OF THE REQUIREMENTS PREVIOUSLY OBTAINED ASHORE ARE AVAILABLE FROM SUPPLY STOCKS ONBOARD THE SHIP THAN WERE CAPABLE OF BEING PROVIDED IN 1981.

WE ALSO MEASURE EQUIPMENT DOWNTIME ON SHIPS. SINCE 1981, WHILE THE FLEET SIZE HAS INCREASED BY 19 PERCENT, THE EQUIPMENT DOWNTIME HAS DECREASED BY 50 PERCENT. CORRESPONDINGLY, THE AVERAGE CUSTOMER WAIT TIME FOR PARTS NEEDED TO CORRECT MAJOR EQUIPMENT DOWNTIME HAS DECREASED BY 25 PERCENT (SEE ATTACHMENT D). THIS MEANS, ON AVERAGE, THAT WHEN VITAL EQUIPMENTS NEED PARTS IN ORDER TO BE RESTORED TO A MISSION-READY STATUS, OUR SHIPS WAIT 25 PERCENT LESS TIME IN 1985 THAN IN 1981 FOR THESE PARTS TO ARRIVE FROM THE SUPPLY SYSTEM. ANOTHER KEY READINESS MEASURE WE USE FOR SHIPS IS TIME FREE OF C3 AND C4 CASREPS. C3 AND C4 CASREPS ARE THOSE SYSTEMS CASUALTIES WHICH MAKE ONE OF ITS MAJOR SYSTEMS TOTALLY INOPERATIVE OR THAT CAN KEEP A SHIP FROM GETTING UNDERWAY. AGAIN, SINCE 1981, THE TIME FREE OF THESE CRITICAL CASREPS HAS IMPROVED BY 42 PERCENT (SEE ATTACHMENT E). THESE IMPROVEMENTS IN OUR CAPABILITIES ARE SUBSTANTIAL AND HAVE BEEN MADE POSSIBLE BY THE FINE SUPPORT OF THE CONGRESS IN GENERAL AND THIS SUBCOMMITTEE IN PARTICULAR.

RECENTLY, IN ANALYZING THE ATLANTIC FLEET'S 1984 PERFORMANCE, ITS COMMANDER-IN-CHIEF, ADMIRAL WES McDONALD, STATED THAT FOR HIS AIRCRAFT CARRIERS, ". . . MATERIAL AVAILABILITY IS NO LONGER THE PACING FACTOR REGARDING SURGE (OR WAR FIGHTING CAPABILITY)." IN THAT REGARD, AT ANY POINT IN TIME THE NAVY SUPPLY SYSTEM IS PROVIDING SUSTAINED SUPPORT FOR EIGHT BATTLE GROUPS DEPLOYED AROUND THE WORLD TO ENSURE THEY ARE OPERATIONALLY READY. LET'S JUST BRIEFLY REVIEW ONE TYPICAL BATTLE GROUP AND ITS RECENT PERFORMANCE UNDER DIFFICULT CONDITIONS. THE INDEPENDENCE BATTLE GROUP STARTED ITS 1983/1984 DEPLOYMENT IN NORFOLK AND SPENT 158 OF ITS NEXT 176 DAYS AT SEA. DURING THAT TIME, THE INDY BATTLE GROUP PROVIDED SUPPORT FOR THE GRENADA OPERATION, FLEW AIR STRIKES ON LEBANON, AND TESTED HER CAPABILITY IN A COLD WEATHER NATO OPERATION IN THE NORTH ATLANTIC. DURING THIS CRUISE, SHE AVERAGED 82 PERCENT MISSION CAPABLE AND 78 PERCENT FULL MISSION CAPABLE RATES FOR HER AIRCRAFT. SHE DEPLOYED WITH ZERO CASREPS AND RETURNED WITH ONLY ONE. AT ALL TIMES SHE STOOD FULLY READY AS AN ARM OF NATIONAL POLICY. SHE NOT ONLY DEMONSTRATED SEA POWER AROUND THE GLOBE, BUT SHE WAS THE EPITOME OF A HIGHER ORDER OF CAPABILITY, THAT IS, "STAY AT SEA POWER."

TODAY, WE ARE IMPROVING FURTHER ON THESE IMPRESSIVE PERFORMANCE INDICATORS, AS SHOWN BY KITTY HAWK'S CURRENT READINESS IN THE INDIAN OCEAN. AS OF LAST MONDAY, HER AIR WING HAD 72 OF HER 80 AIRCRAFT MISSION READY TO SUPPORT FLIGHT OPERATIONS WITH ONLY 24 OFF-SHIP REQUISITIONS FOR MISSION DEGRADING MATERIAL. THE SUCCESS OF THIS SYSTEM IS DIRECTLY ATTRIBUTABLE TO THE RESPONSIBLE LEGISLATIVE AND EXECUTIVE BRANCHES' EFFORTS OVER THE LAST SEVERAL YEARS TO REBUILD THE NAVY TO A LEVEL WHERE IT STANDS READY TO PERFORM ITS MISSIONS. WITHOUT QUESTION, FROM A READINESS VIEWPOINT, WE ARE IN THE BEST SHAPE TO MEET OUR NATIONAL COMMITMENTS THAT WE HAVE BEEN FOR OVER A DECADE.

UP TO THIS POINT, MY REMARKS HAVE ADDRESSED THE QUESTION OF THE READINESS AND CAPABILITY OF THE NAVY SUPPLY SYSTEM TO SUPPORT SUSTAINED HIGH TEMPO OPERATIONS. I WILL NOW ADDRESS THE STRUCTURE OF THE NAVY SUPPLY SYSTEM.

THE NAVY SUPPLY SYSTEM

THE NAVY SUPPLY SYSTEM IS THE NETWORK OF ORGANIZATIONS WHICH INTERACT TO ACCOMPLISH THE VITAL FUNCTION OF KEEPING THE NAVY OPERATIONALLY READY. AS THE NAVY'S PRINCIPAL LOGISTICS ORGANIZATION, THE NAVAL SUPPLY SYSTEMS COMMAND (NAVSUP) IS RESPONSIBLE FOR THE DEVELOPMENT, MANAGEMENT AND OPERATION OF THE NAVY SUPPLY SYSTEM . . . A SYSTEM WHICH PROVIDES SUPPLIES AND SERVICES TO SATISFY THE NAVY'S PEACETIME AND WARTIME REQUIREMENTS. THE NAVSUP COMMAND CONSISTS OF A HEADQUARTERS STAFF, TWO INVENTORY CONTROL POINTS AND SEVEN NAVAL SUPPLY CENTERS WHICH ARE LOCATED IN AREAS OF LARGE CONCENTRATIONS OF FLEET AND INDUSTRIAL OPERATIONS. ADDITIONALLY, IT INCLUDES FOUR NAVY REGIONAL CONTRACTING CENTERS, A COMPUTER SOFTWARE CENTRAL DESIGN AGENCY, THE NAVY RESALE SYSTEM, THE NAVY PUBLICATIONS AND PRINTING SERVICE, AND SEVERAL OTHER MINOR FIELD ACTIVITIES. NAVSUP IS AN ECHELON 2 ACTIVITY REPORTING TO THE CHIEF OF NAVAL OPERATIONS, ADMIRAL WATKINS, AND THE SECRETARY OF THE NAVY, MR. LEHMAN.

SUPPLY SUPPORT IN THE NAVY IS BIG BUSINESS. IN PERFORMING OUR MISSION, NAVSUP DIRECTLY EMPLOYS OVER 2,100 MILITARY PERSONNEL AND OVER 50,000 CIVILIANS. OUR ANNUAL OPERATING BUDGET IS $1.3 BILLION. THE SYSTEM WE OVERSEE INCLUDES A $23 BILLION INVENTORY PROGRAM TO MEET OVER 23 MILLION ANNUAL MATERIAL REQUESTS. WE PROCESS GREATER THAN $50 BILLION IN MATERIAL RECEIPTS AND ISSUES ANNUALLY. WE MANAGE A TRANSPORTATION NETWORK WHICH MOVES OVER 1.7 MILLION TONS OF CARGO ANNUALLY AND A FUEL SYSTEM PROGRAM THAT DELIVERS OVER 2.7 BILLION GALLONS ANNUALLY TO OPERATING FORCES THROUGHOUT THE WORLD. OUR FIELD CONTRACTING SYSTEM COMPRISES OVER 900 SHORE ACTIVITIES WHICH HANDLE 2.5 MILLION TRANSACTIONS A YEAR, WORTH $10 BILLION. THE NAVY RESALE SYSTEM, WHICH INCLUDES OVER 600 NAVY EXCHANGES, SHIP STORES, NAVY LODGES AND COMMISSARY STORES, GENERATES ANNUAL SALES OVER 2.3 BILLION DOLLARS. IN ADDITION TO OUR EXTENSIVE SUPPLY SYSTEM RESPONSIBILITIES, WE ALSO SPONSOR AND SUPPORT THE MILITARY AND CIVILIAN SUPPLY CAREER DEVELOPMENT PROCESS. THERE, WE PROVIDE POLICY GUIDANCE FOR THE TRAINING, PROFESSIONAL DEVELOPMENT AND ASSIGNMENT OF OUR 4,700 SUPPLY CORPS OFFICERS, AS WELL AS THE PROFESSIONAL TRAINING OF 41,000 ENLISTED MEN AND WOMEN SERVING IN VARIOUS SUPPLY RATINGS.

LIKE MANY LARGE AND MULTI-FACETED ORGANIZATIONS, THE NAVAL SUPPLY SYSTEMS COMMAND HAS A STRATEGIC PLAN WHICH SETS FORTH OUR CORPORATE LONG RANGE DIRECTION AND INTEGRATES COLLECTIVE EFFORT IN NINE AREAS ESSENTIAL TO THE FULFILLMENT OF OUR LOGISTICS SUPPORT MISSION. THESE ARE:

- o WEAPONS SYSTEM OPERATIONAL AVAILABILITY
- o SUPPLY RESPONSE TIME
- o RESOURCE MANAGEMENT
- o INVENTORY ACCURACY
- o PRODUCTIVITY AND PROCEDURAL DISCIPLINE
- o QUALITY OF PERSONNEL
- o QUALITY AND COST OF MATERIAL SERVICES
- o SYSTEM INTEGRATION AND DATA ACCURACY
- o FACILITY AVAILABILITY

WHILE THE SCOPE OF NAVSUP'S RESPONSIBILITIES CLEARLY COVERS A WIDE RANGE OF FUNCTIONAL AREAS, I WILL LIMIT MY REMAINING REMARKS PRIMARILY TO SPARE PARTS MANAGEMENT.

HOW THE SYSTEM WORKS

THE NAVY SUPPLY SYSTEM STOCKS MORE THAN 1 MILLION DIFFERENT ITEMS TO SUPPORT NAVAL SHIPS AND AIRCRAFT. THE REPAIR PART SUPPORT PROCESS COMMENCES AT THE BEGINNING OF A WEAPON SYSTEM'S LIFE CYCLE WHEN AN ENGINEERING ANALYSIS OF FAILURE RATES IS PERFORMED ON ALL COMPONENT REPAIR PARTS. BASED ON THE RESULTS OF THIS ANALYSIS, APPROPRIATE REPAIR PARTS ARE IDENTIFIED FOR STOCKING IN THE SUPPLY SYSTEM. DEPENDING ON THE NATURE OF THE ITEM, IT IS EITHER ASSIGNED TO THE NAVY OR THE DEFENSE LOGISTICS AGENCY (DLA) FOR CENTRAL MANAGEMENT. THE ITEM IS THEN CATALOGUED WITH A NATIONAL STOCK NUMBER AND INITIAL STOCKS ARE BOUGHT AND PLACED IN THE NAVY SUPPLY SYSTEM (INCLUDING MOST OF THE ITEMS MANAGED BY THE DEFENSE LOGISTICS AGENCY). THESE STOCKS ARE POSITIONED ASHORE AT THE STOCK POINTS CLOSEST TO THE LOCATIONS OF THE WEAPON SYSTEM, BE THEY SUPPLY CENTERS, SUPPLY DEPOTS, AIR STATIONS, SHIPYARDS OR WEAPON STATIONS. AS THE WEAPON SYSTEM MATURES, THE QUANTITIES CARRIED IN THE SUPPLY SYSTEM ARE ADJUSTED TO REFLECT THE EXPERIENCE

OF ACTUAL PARTS USAGE. IF IT BECOMES APPARENT THAT CERTAIN ITEMS ORIGINALLY NOT STOCKED IN THE SUPPLY SYSTEM ARE BEING USED, THE NAVY OR DLA WILL PROCURE THE ITEMS FOR SYSTEM STOCK.

ALL SHIPS ARE OUTFITTED WITH A BASIC RANGE AND DEPTH OF SPARE PARTS NECESSARY TO PROVIDE TIMELY SUPPORT. AIRCRAFT CARRIERS ALSO STOCK PARTS TO SUPPORT THE EMBARKED AIR WING. PARTS ARE ISSUED FROM SHIPBOARD STOREROOMS TO SUPPORT REQUIREMENTS. AS STOREROOM STOCKS ARE DEPLETED, THE SUPPLY DEPARTMENT REPLENISHES STOCKS FROM THE SUPPLY SYSTEM ASHORE OR, ON LARGER SHIPS WITH THE CAPABILITY, FROM THE ONBOARD REPAIR FACILITY. IN THOSE CASES WHERE THE ITEM IS NOT AVAILABLE IN SHIPBOARD STOCKS, THE SHIPBOARD CUSTOMER'S REQUISITION IS SENT OFF THE SHIP FOR ACTION BY THE SYSTEM. IF THE ITEM IS NOT AVAILABLE IN THE SUPPLY SYSTEM, IT IS PURCHASED DIRECTLY FROM A VENDOR VIA THE PROCUREMENT PROCESS.

SUPPLY MANAGEMENT ON AN AIRCRAFT CARRIER

I WOULD NOW LIKE TO TAKE A FEW MOMENTS TO DESCRIBE THE SUPPLY MISSION ABOARD AN AIRCRAFT CARRIER SUCH AS KITTY HAWK. THE MAGNITUDE OF THE ENTIRE SUPPLY OPERATION ONBOARD A CARRIER IS EVIDENT IN ALMOST ANY STATISTIC. FOR EXAMPLE, OVER 10 TONS OF FOOD ARE CONSUMED EACH DAY; THE SHIP'S STORES GENERATE DAILY SALES OF $20,000; THE BI-WEEKLY PAYROLL APPROXIMATES $1 MILLION; AND STORAGE CAPACITY EXISTS FOR 5 MILLION GALLONS OF FUEL. THERE ARE NUMEROUS OTHER EQUALLY IMPRESSIVE STATISTICS, BUT ALL OF THEM CAN BE CHARACTERIZED IN ONE WORD . . . BIG.

PROBABLY THE MOST IMPRESSIVE OF ALL THE SUPPLY FUNCTIONS ON A CARRIER IS SPARE PARTS MANAGEMENT. ANNUAL THROUGHPUT OF ISSUES AND RECEIPTS APPROXIMATES $1 BILLION FOR AN OPERATIONAL CARRIER. EACH CARRIER STOCKS APPROXIMATELY 100,000 DIFFERENT LINE ITEMS, VALUED FROM $200-$300 MILLION DEPENDING ON THE NUMBER AND TYPES OF AIRCRAFT SUPPORTED.

CONSIDERING THE MULTIPLE QUANTITIES STOCKED FOR MANY OF THE INDIVIDUAL LINE ITEMS, THE ACTUAL NUMBER OF PARTS ONBOARD IS IN THE MILLIONS. THESE ITEMS ARE STORED IN APPROXIMATELY 75 STOREROOMS IN APPROXIMATELY 30,000 INDIVIDUAL LOCATIONS. IN SHORT, THE SPARE PARTS BUSINESS OF EACH CARRIER IS COMPARABLE TO A LARGE BUSINESS.

THE MAGNITUDE OF THE OPERATION IS EVEN MORE IMPRESSIVE WHEN ONE CONSIDERS THE CARRIER ENVIRONMENT. THE HECTIC OPERATING TEMPO AND INVENTORY RESUPPLY DISRUPTIONS CONSTANTLY IMPACT SPARE PARTS MANAGEMENT. WHEN MATERIAL IS DELIVERED, IT COMES IN A SPORADIC FASHION RESULTING IN A FLUCTUATING RECEIVING WORKLOAD . . . IT IS NOT UNUSUAL AT SEA TO RECEIVE UP TO 1,000 PALLETS OF MATERIAL IN A 5 HOUR PERIOD FROM SEVERAL SHIPS VIA VERTICAL REPLENISHMENT BY HELICOPTER, AS WELL AS BY HIGH LINE FROM A RESUPPLY SHIP ALONGSIDE. MATERIAL MUST THEN BE IMMEDIATELY CLEARED FROM THE FLIGHT DECK AND HANGAR AREAS SO THAT THE CARRIER CAN RETURN TO HER BASIC MISSION AND COMMENCE FLIGHT OPERATIONS . . . THIS CAN BE AS QUICKLY AS TWO HOURS AFTER THE LAST PALLET HITS THE DECK. IN ADDITION, ISSUES ARE MADE CONTINUALLY, 24 HOURS A DAY. THUS, WITH APPROXIMATELY 500 DAILY ISSUES, SOMEONE IS BREAKING OUT AND DELIVERING MATERIAL EVERY FEW MINUTES AROUND THE CLOCK ON AN OPERATING CARRIER. MANY OF THESE ISSUES ARE REQUIRED WITHIN MINUTES TO SATISFY AN IMMINENT LAUNCH OF AIRCRAFT.

THE FAST PACE OF SPARE PARTS MANAGEMENT CONTINUES WHEN THE SHIP RETURNS FROM DEPLOYMENT. AT THE END OF EVERY CARRIER OPERATING CYCLE, THE ENTIRE RANGE AND DEPTH OF AVIATION ITEMS SUPPORTING THE CARRIER'S AIR WING IS REVIEWED AND INVENTORIED TO ENSURE THE DECKLOAD OF AIRCRAFT WILL BE PROPERLY SUPPORTED DURING THE NEXT DEPLOYMENT. EXCESSES ARE TURNED IN, DEFICIENCIES ARE IDENTIFIED AND ORDERED AND THEN MATERIAL IS RECEIVED AND LOADED ONBOARD . . . ALL IN A COMPRESSED TIMEFRAME NECESSARY IF THE SHIP IS TO MEET THE COMMENCEMENT OF ITS NEXT OPERATIONAL CYCLE. THE BOTTOM LINE IS THAT SPARE PARTS MANAGEMENT IS A NEVER ENDING PROCESS BOTH AT SEA AND IN PORT.

MANAGING THIS HIGHLY COMPLEX FUNCTION IS A TOUGH CHALLENGE. OPERATING THE SYSTEM EFFICIENTLY REQUIRES THOROUGH AND CONTINUOUS MANAGEMENT OF THE DETAILS. I THINK WE ARE DOING EXACTLY THAT. WE HAVE CONCENTRATED OUR EFFORTS AND DIRECTED OUR AVAILABLE RESOURCES ON OUR HIGH COST AVIATION REPAIRABLES WHERE WE GET THE MAXIMUM PAYOFF BOTH IN TERMS OF READINESS AND ACCOUNTABILITY. FOR EXAMPLE, MAXIMUM MANAGEMENT FOCUS IS DIRECTED AT 250 HIGH COST, HIGH USAGE AVIATION REPAIRABLES, KNOWN AS THE ROTATABLE POOL. THESE 250

ITEMS, WHICH ARE LESS THAN 1 PERCENT OF A CARRIER'S TOTAL NUMBER OF LINE ITEMS CARRIED, ACCOUNT FOR APPROXIMATELY 31 PERCENT OF THE DOLLAR VALUE OF THE INVENTORY. TO PROVIDE PERSPECTIVE ON PERFORMANCE STATISTICS, A CARRIER RECENTLY WAS ABLE TO IMMEDIATELY ISSUE THESE HIGH COST AVIATION REPAIRABLES 99 PERCENT OF THE MORE THAN 7,000 TIMES THAT THEY WERE REQUESTED DURING HER LAST DEPLOYMENT.

INTENSIVE INVENTORY MANAGEMENT PROCEDURES ARE APPLIED TO ALL REPAIRABLE ITEMS AND OTHER CRITICAL CATEGORIES, AND THIS ENABLES US TO BRING A TOTAL OF 85 PERCENT OF THE INVENTORY DOLLAR VALUE UNDER STRINGENT CONTROL. FOR EXAMPLE, ALL HIGH COST REPAIRABLES ARE GENERALLY STOWED IN SEGREGATED STOREROOMS. ADDITIONALLY, SPECIAL STANDARDS AND REQUIREMENTS HAVE BEEN APPLIED TO OUR NUCLEAR REACTOR SUPPORT MATERIAL. OUR NUCLEAR CARRIERS DEPLOY WITH 100 PERCENT OF ALL NUCLEAR REACTOR SPARE PARTS ONBOARD AND ISSUE EFFECTIVENESS GENERALLY EXCEEDS 99 PERCENT ON THIS SMALL (6,000-7,000 ITEMS) BUT CRITICAL SEGMENT OF THE INVENTORY.

COMPARING THE CARRIER TO A SMALL CITY MIGHT BEST REFLECT THE MAGNITUDE OF THE OPERATION. IMAGINE A 25 STORY BUILDING WHICH COVERS A CITY BLOCK, OPERATING ITS OWN AIRPORT, AND TRAVELING THE WORLD'S OCEANS OFTEN AT SPEEDS OVER 30 MILES PER HOUR. SIX THOUSAND PEOPLE LIVE IN THIS FLOATING CITY, 800 OF WHOM WORK FOR THE SUPPLY OFFICER TO PROVIDE THE TOTALITY OF SUPPLY SUPPORT THIS CITY NEEDS. WITH ONLY A SMALL PORTION OF THESE PERSONNEL (APPROXIMATELY 100) DEDICATED TO SPARE PARTS MANAGEMENT AND THE CONTROL OF A $1 BILLION THROUGHPUT, WE HAVE APPLIED OUR LIMITED RESOURCES TO GENERATE THE MAXIMUM RETURN.

I HAVE TAKEN TIME TO DESCRIBE THE DEMANDING SUPPLY ENVIRONMENT ABOARD A CARRIER IN ORDER TO PROVIDE SOME NECESSARY PERSPECTIVE. WE KNOW WE HAVE PROBLEMS BROUGHT ABOUT BY THIS ENVIRONMENT AND WE ARE CONSTANTLY WORKING TO PROVIDE BETTER MANAGEMENT TOOLS SO THAT THE SUPPLY OPERATION CAN PERFORM AS EFFICIENTLY AS POSSIBLE. NOW I WILL ADDRESS VARIOUS ALLEGATIONS.

ALLEGATIONS

NUMEROUS ALLEGATIONS OF IRREGULARITIES, IMPROPRIETIES, WEAKNESSES AND OUTRIGHT CRIMINAL ACTIONS ABOARD USS KITTY HAWK AND

WITHIN THE SUPPLY SYSTEM IN GENERAL HAVE BEEN AIRED IN RECENT MONTHS. THE EXPOSURE OF A THEFT RING WHICH WAS PROVIDING AIRCRAFT PARTS TO IRAN AND THE SUBSEQUENT ARRESTS OF SEVEN PEOPLE, ONE OF WHOM WAS A PETTY OFFICER FROM USS KITTY HAWK, CAST SPECIFIC DOUBTS REGARDING BOTH PHYSICAL SECURITY AND COMPUTER SYSTEM VULNERABILITIES.

IRANIAN THEFT ALLEGATIONS

IN ADDRESSING THESE ALLEGATIONS, FIRST LET ME DISCUSS THE IRANIAN THEFT RING. ALLEGATIONS INVOLVING THE IRANIAN THEFT RING FOCUS ON:

- o VULNERABILITY OF SUPPLY COMPUTER SYSTEMS TO OUTSIDE HACKERS.
- o VULNERABILITY OF SUPPLY SYSTEM INVENTORIES TO PHYSICAL THEFT.
- o COMPROMISE OF F-14 WEAPON SYSTEMS AS A RESULT OF THE THEFT OF CLASSIFIED SPARE PARTS.

THE ACTS WHICH SPAWNED THESE ALLEGATIONS HAVE AND ARE BEING DEALT WITH BY VARIOUS FEDERAL LAW ENFORCEMENT AGENCIES. WHAT I WANT TO ADDRESS HERE ARE NOT THE ACTS THEMSELVES, BUT RATHER WHAT THEY PORTEND FOR THE SUPPLY SYSTEM.

- o VULNERABILITY TO HACKERS. IN ALL MAJOR BUSINESS DATA PROCESSING APPLICATIONS, INCLUDING THE NAVY'S SUPPLY SYSTEM, COMPUTER SECURITY IS AN INTEGRAL ELEMENT OF THE HARDWARE AND SOFTWARE DESIGN. AN "OUTSIDE HACKER" WOULD NOT ONLY BE FACED WITH DIFFICULTY IN ENTERING SUPPLY SYSTEM COMPUTERS, BUT WOULD ALSO HAVE TO HAVE KNOWLEDGE OF THE COMPLEX SERIES OF REQUISITIONING CODES WHICH ARE REQUIRED TO OBTAIN MATERIAL. BASED ON OUR RECENT ASSESSMENT, WE BELIEVE WE ARE NOT VULNERABLE TO DIVERSION OF MATERIAL BY OUTSIDE HACKERS. THERE IS NO EVIDENCE TO DATE WHICH WOULD CAUSE ONE TO CONCLUDE THAT OUR COMPUTERS HAVE BEEN PENETRATED BY OUTSIDE HACKERS. THERE IS,

HOWEVER, EVIDENCE OF ILLEGAL MATERIAL REQUISITIONING BY KNOWLEDGEABLE INSIDERS, AND I WILL ADDRESS OUR ACTIONS TO DETER THESE ACTS LATER IN MY STATEMENT.

- VULNERABILITY TO PHYSICAL THEFT. IN THE MARCH/APRIL 1983 TIMEFRAME, THE U.S. CUSTOMS SERVICE AND THE FBI INITIATED INVESTIGATIONS INTO THE ALLEGED THEFT OF U.S. NAVY SPARE PARTS FOR UTILIZATION IN IRAN. THE FBI INVESTIGATION DOCUMENTS THAT THE THIEVES SHIPPED 45 DIFFERENT TYPES OF MATERIAL TOTALLING 277 PIECES. ALL PARTS INVOLVED THE F-14 AIRCRAFT BUT NO PHOENIX MISSILE PARTS WERE INVOLVED IN THE THEFTS. AS NONE OF THOSE ARRESTED HAS MADE A SUBSTANTIVE STATEMENT, THE MEANS AND METHODS UTILIZED TO PERPETRATE THE THEFTS ARE STILL NOT KNOWN. HOWEVER, WE CAN SAY WITH REASONABLE SURETY THAT THE THEFTS WERE PERPETRATED BY INSIDER PERSONNEL WHO HAD ACCESS TO THE PARTS OR THE MEANS TO ORDER THEM AS PART OF THEIR EMPLOYMENT.

- WEAPON SYSTEM COMPROMISE. WE HAVE CAREFULLY REVIEWED THE FBI LISTINGS OF MATERIAL STOLEN BY THE RING AND HAVE COMPLETED INVENTORIES OF ALL CLASSIFIED F-14 SPARE PARTS. WE ALSO INVENTORIED ALL PHOENIX MISSILE CLASSIFIED PARTS BECAUSE OF A PRESS STATEMENT SAYING THEY WERE INVOLVED IN THE CASE. THE INVENTORIES SHOWED THAT THE SUPPLY SYSTEM IS NOT MISSING ANY F-14 OR PHOENIX CLASSIFIED SPARES. RENEWED EMPHASIS IS NEVERTHELESS BEING PLACED THROUGHOUT OUR SYSTEM ON ABSOLUTE CONFORMANCE TO EXISTING CLASSIFIED INVENTORY MANAGEMENT PROCEDURES. FURTHER, WE HAVE WORKED WITH NAVY INTELLIGENCE TO DETERMINE OTHER SPARES "TARGETED" BY OUTSIDE INTERESTS. WE WILL ADD THESE ITEMS TO THOSE NORMALLY MANAGED WITH INTENSIFIED SECURITY MEASURES.

ON BALANCE, REVIEW OF THE IRANIAN THEFT SITUATION CONFIRMED WE ARE ADEQUATELY PROTECTED AGAINST EXTERNAL SUBVERSION UNLESS KNOWLEDGEABLE INSIDERS ASSIST THE OUTSIDERS. CONSEQUENTLY, WE MUST STRENGTHEN OUR PROTECTION AGAINST SUCH SITUATIONS.

I WILL NOW DISCUSS SPECIFIC CORRECTIVE ACTIONS WE ARE TAKING TO TIGHTEN PHYSICAL SECURITY.

OUR CLEAR AND FUNDAMENTAL CHALLENGE IS TO TIGHTEN PHYSICAL CONTROL OVER OUR MATERIAL AND ESTABLISH AN ATMOSPHERE WHICH OPERATES TO DETER AND PREVENT THEFT. WE RECOGNIZE IT IS TOUGH TO CONTROL EVERYONE AND THAT THERE WILL BE INDIVIDUALS WHO WILL ATTEMPT TO TEST THE SYSTEM. THOSE INDIVIDUALS MUST KNOW AND UNDERSTAND WHAT RISKS THEY FACE AND THAT THEY WILL ULTIMATELY BE CAUGHT AND DISCIPLINED. OUR PRINCIPAL THRUST IS TO PROMULGATE A STRICT CODE OF PERSONAL ETHICS FOR ALL PERSONNEL WHO HAVE DIRECT RESPONSIBILITY FOR THE MANAGEMENT AND ACCOUNTABILITY OF MATERIAL, FINANCIAL RECORDS AND COMPUTER DATA. THE FOLLOWING MAJOR INITIATIVES HAVE ALSO BEEN ESTABLISHED TO STRENGTHEN OUR PHYSICAL SECURITY:

- HIGH COST REPAIRABLE AND OTHER CRITICAL ASSETS ARE BEING CONSOLIDATED IN A FEW SELECT STOREROOMS ABOARD SHIP. ACCESS WILL BE LIMITED TO A SMALL SELECT GROUP OF ACCOUNTABLE CUSTODIANS.

- INCREASED NAVAL INVESTIGATIVE SERVICE (NIS) STAFFING TO PROVIDE MORE SUPPLY OPERATIONS INVESTIGATIONS.

- WE HAVE ALREADY ESTABLISHED A COMMUNICATION LINK WITH THE NAVAL INVESTIGATIVE SERVICE TO ENSURE THE SUPPLY COMMUNITY IS KEPT ABREAST OF ANY ITEM CONSIDERED PARTICULARLY SUSCEPTIBLE TO THEFT.

- SIGNATURE SERVICE TRANSPORTATION OF HIGH COST AND CRITICAL SPARES IS BEING IMPLEMENTED.

- SECURITY IS BEING TIGHTENED AT ALL OTHER AREAS WHERE MATERIAL IS EITHER TRANSPORTED AND/OR TEMPORARILY STAGED, AND AT ALL POINTS OF EGRESS SUCH AS SHIPBOARD CONVEYORS, CRANES, ELEVATORS, MAIL AND TRASH.

- SHIPBOARD SECURITY IS BEING TIGHTENED IN ALL ADP SPACES AND SPACES WITH TERMINALS.

- CLASSIFIED INVENTORY PROCEDURES ARE BEING REEMPHASIZED AND RANDOM INVENTORIES OF ALL REPAIRABLES ARE BEING INCREASED.

- WE ARE DEVELOPING AN UP-FRONT ADP EDIT CAPABILITY THAT WILL LOCK OUT UNAUTHORIZED USERS FOR TARGETED WEAPON SYSTEMS. ADDITIONALLY, WE ARE UTILIZING THEFT DETECTION SOFTWARE TO SCAN CUSTOMER REQUISITIONS, ON AN AFTER-THE-FACT BASIS, LOOKING FOR UNAUTHORIZED MATERIAL DIVERSIONS.

- WE ARE DEVELOPING A RELIABILITY SCREENING PROGRAM FOR ALL OF OUR STOREKEEPERS AND OTHER PERSONNEL IN ACCOUNTABLE POSITIONS.

THESE PHYSICAL SECURITY MEASURES, COUPLED WITH DATA PROCESSING DEVELOPMENTS, DISCUSSED LATER IN THIS STATEMENT, WILL SERVE TO PROVIDE A MORE COMPREHENSIVE DETERRENT PACKAGE TO WOULD-BE THIEVES AND THEREBY MORE FULLY PROTECT THE MATERIAL IN OUR CUSTODY.

KITTY HAWK ALLEGATIONS

NOW, I WILL ADDRESS THE ALLEGATIONS CONCERNING SUPPLY OPERATIONS ABOARD KITTY HAWK. THE OFFICIAL JUDGE ADVOCATE GENERAL (JAG) MANUAL INVESTIGATION HAS BEEN REVIEWED BY THE CHIEF OF NAVAL OPERATIONS AND IS THE BASIS FOR MY COMMENTS ON THE ALLEGATIONS.

SEVEN OF THE ALLEGATIONS ARE UNSUBSTANTIATED.

- THERE WAS NO FRAUDULENT PREPARATION OF OFF-LOAD DOCUMENTS.

  THE ALLEGATION WAS THAT $80 THOUSAND WORTH OF MATERIAL WAS DOCUMENTED AS OFFLOADED, BUT KEPT ON THE SHIP. THE OFFLOAD DOCUMENTS AT ISSUE HERE WERE PREPARED ON 12 APRIL 1985. THEY ACCOMPANIED THE $80 THOUSAND WORTH OF MATERIAL AS IT WAS OFFLOADED FROM THE SHIP, BOTH BY CARGO AIRCRAFT AND TO THE USS WICHITA, ON 18 APRIL. A FINAL SEGMENT WAS OFFLOADED TO PIERSIDE ON 26 APRIL. ALL MATERIAL WAS SENT TO NSC SAN DIEGO AS DOCUMENTED. THERE WAS NO IMPROPRIETY.

- THERE WAS NO COVER-UP OF IMPROPER PURCHASING (CONTRACTOR WORK).

  THE PURCHASING OPERATION ABOARD KITTY HAWK REFLECTS SOME PROBLEMS IN THE MAINTENANCE OF RECORDS, AND IN SOME ISOLATED INCIDENTS, OF INAPPROPRIATE EXPENDITURES OF SHIP'S FUNDS. THESE WILL BE DISCUSSED LATER IN MY STATEMENT. HOWEVER, THERE IS NO EVIDENCE THAT SUGGESTS PURCHASING PEOPLE TRIED TO COVER-UP ANY OF THEIR PURCHASING ACTIONS.

- THERE WAS NO FRAUDULENT OPTAR LOG MAINTENANCE.

  THERE IS NO EVIDENCE OF FRAUD INVOLVED WITH MAINTENANCE OF DEPARTMENT OPTAR LOGS. THERE IS, HOWEVER, EVIDENCE OF INACCURACIES BETWEEN OPTAR LOGS AND COMPUTER FINANCIAL REPORTS. OPTAR LOGS ARE UNOFFICIAL RECORDS WHICH ARE NOT REQUIRED BY REGULATIONS. THEY ARE SIMILAR TO CHECKBOOKS AND ARE USED BY SHIP DEPARTMENTS (ENGINEERING, MAINTENANCE, OPERATIONS, ETC.) TO KEEP TRACK OF DEPARTMENTAL AUTHORIZED SPENDING LIMITS WHICH ARE KEPT OFFICIALLY ON THE SUPPLY DEPARTMENT COMPUTER. THE COMPUTER RECORDS ARE ANALOGOUS TO BANK STATEMENTS. THESE INACCURACIES, THE DIFFERENCE BETWEEN THE TWO RECORDS, LED TO NUMEROUS ALLEGATIONS OF FRAUD. TO REPEAT, THERE IS NO EVIDENCE OF FRAUD. THERE ARE DIFFERENCES BETWEEN THE TWO SETS OF RECORDS JUST AS ONE'S CHECKBOOK RARELY MATCHES THE BANK STATEMENT. THIS CONDITION WILL ALWAYS EXIST DUE TO THE TIME LAG BETWEEN THE SUBMISSION OF THE CUSTOMER REQUIREMENT AND ITS SUBSEQUENT UPDATE IN COMPUTER RECORDS AND THE COMPUTER REJECTION OF IMPROPERLY FORMATTED REQUISITIONS WHICH MUST BE CORRECTED AND REINPUT TO THE COMPUTER. EVEN UNDER PERFECT CONDITIONS, WHERE NO ERRORS OCCUR, THE TWO RECORDS WOULD STILL DIFFER DUE TO THE TIME LAG ALONE. THE EXISTENCE OF DIFFERENCES IS NOT AN INDICATION OF FRAUD.

- THERE WERE NO ILLEGAL KICKBACKS FROM CORPORATE REPRESENTATIVES DOING BUSINESS WITH THE SHIP.

  THERE WAS AN INCIDENT WHERE STOCK CAR RACE TICKETS WERE OFFERED TO A SHIP'S STORE PETTY OFFICER. THE PETTY OFFICER REFUSED THE OFFER AND IMMEDIATELY REPORTED THE INCIDENT TO HIS SUPERVISOR IN ACCORDANCE WITH ESTABLISHED STANDARDS OF CONDUCT. THESE FACTS REFUTE THE ALLEGATION. THERE ARE NO OTHER SPECIFIC CHARGES UNDER THIS ALLEGATION.

- THERE WAS NO BLACKMARKETING OF STOLEN U.S. PROPERTY ONBOARD USS KITTY HAWK.

  INVESTIGATION TO DATE HAS FAILED TO SHOW ONE INSTANCE OF BLACKMARKETING ON KITTY HAWK.

- THERE WAS NO FRAUDULENT 1983 BUDGET OPTAR REPORT.

  THERE IS NO EVIDENCE OF FRAUD INVOLVED WITH CHANGES TO THE 1983 BUDGET OPTAR REPORT. THERE WERE AUTHORIZED CHANGES TO KITTY HAWK BUDGET OPTAR REPORTS (BORs) SINCE TYPE COMMANDER POLICY PERMITS SUCH CHANGES TO ENTRIES WHICH ARE KNOWN TO BE INCORRECT DUE TO DATA OMISSION OR PROCESSING ERRORS. THE KITTY HAWK DID, IN FACT, OVER-OBLIGATE ITS FY83 OPTAR. THE SUPPLY OFFICER BELIEVED THAT THERE WERE ACCOUNTING CREDITS AVAILABLE TO FUND THE OVER-OBLIGATION. THE TYPE COMMANDER IS AWARE OF THE OPTAR OVER-OBLIGATION AND IS FOLLOWING UP ON THE IRREGULARITY.

- THERE WERE NO IMPROPER ACCOUNTING PROCEDURES.

  THE CENTRAL ISSUE HERE IS THE ALLEGATION THAT THE SUPPLY DEPARTMENT POLICY OF NOT RECONCILING DIFFERENCES BETWEEN MEMORANDUM OPTAR RECORDS AND OFFICIAL COMPUTER RECORDS, FOR CHARGES UNDER $1000, WAS ". . . IRRESPONSIBLE AND AN . . . INDICATION

THAT THOSE IN AUTHORITY WERE POOR STEWARDS OF TAXPAYERS' MONEY". THE KITTY HAWK $1000 THRESHOLD IS AN AUTHORIZED ACCOUNTING PROCEDURE THAT NOT ONLY RECOGNIZES THAT A POINT OF DIMINISHING RETURNS EXISTS IN DETAILED RECONCILATIONS, BUT ALSO ATTEMPTS TO KEEP WORKLOAD WITHIN REASONABLE LIMITS THAT CAN BE ACCOMPLISHED. ULTIMATELY, HOWEVER, THE CUSTOMER'S OPTAR IS APPROPRIATELY CHARGED REGARDLESS OF THE $1000 THRESHOLD. THIS IS AN ACCEPTED ACCOUNTING PRACTICE AND NOT EVIDENCE OF ANY IMPROPRIETY. SPECIFICALLY, THERE ARE NO ALLEGATIONS SUPPORTED BY EVIDENCE WHEREIN UNRECONCILED DOCUMENTS WERE FRAUDULENT OR WASTEFUL.

NOW I WOULD LIKE TO ADDRESS THOSE ALLEGATIONS SUBSTANTIATED OR PARTIALLY SUBSTANTIATED BY FACTS.

- THERE WERE FORGED SIGNATURES ON SURVEY DOCUMENTATION.

  THE SURVEY FORMS WERE PREPARED AFTER A REPRESENTATIVE FROM THE TYPE COMMANDER'S STAFF ADVISED THAT A PREVIOUSLY AND PROPERLY EXECUTED BLANKET SURVEY OF INVENTORY VARIANCES WOULD NOT BE ACCEPTABLE FOR AN UPCOMING SUPPLY INSPECTION. THE STOCK CONTROL OFFICER FALSELY ENTERED THE SIGNATURE OF THE DESIGNATED SURVEY OFFICER IN BLOCK 3 OF THE FORM. BLOCK 3 DOES NOT REQUIRE A SIGNATURE. HIS MOTIVE FOR THIS ACTION APPEARS TO BE ONE OF EXPEDIENCY -- NOT WANTING TO OBTAIN 1,520 SIGNATURES. THESE SIGNATURES WERE MADE WITHOUT CRIMINAL INTENT AND UNDER CONFLICTING GUIDANCE. HOWEVER, THE OFFICER UNQUESTIONABLY USED POOR JUDGMENT AND FACES DISCIPLINARY ACTION. NAVY SURVEY PROCEDURES WILL BE CLARIFIED. THERE WAS NO PERSONAL GAIN BY ANY INDIVIDUAL IN THIS ACTION.

- THERE WERE IMPROPER OPEN PURCHASE PRACTICES (CONTRACTOR WORK).

THERE WERE INCORRECT PRACTICES IN THE OPEN PURCHASE FUNCTION, INCLUDING INADEQUATELY DOCUMENTED PURCHASE ACTIONS AND ACTIONS THAT WERE NOT IN ACCORDANCE WITH CURRENT PROCUREMENT REGULATIONS. DISCIPLINARY ACTION IS BEING CONSIDERED FOR THE PARTICIPANTS IN THE PURCHASING FUNCTION. THE PROBLEMS ON KITTY HAWK RESULTED FROM INACCURATE RECORD KEEPING AND FILE MAINTENANCE, INADEQUATE STAFFING AND TRAINING, MISUSE OF THE IMPREST FUND, AND, IN GENERAL, FAILURE TO FOLLOW ESTABLISHED PURCHASING PROCEDURES. ACTIONS HAVE BEEN TAKEN BY THE CHAIN OF COMMAND TO CORRECT THOSE PROCEDURAL PROBLEMS WITHIN THEIR CONTROL. EXTENSIVE PURCHASING GUIDANCE HAS BEEN ISSUED. COMMANDING OFFICERS HAVE BEEN DIRECTED TO PLACE TIGHTER CONTROLS OVER THEIR PURCHASING OPERATIONS TO ENSURE THAT PURCHASING PROCEDURES ARE SCRUPULOUSLY FOLLOWED AND TO ESTABLISH DESK GUIDES FOR TECHNICAL SCREENING AND BUYING PERSONNEL. COMMANDING OFFICERS HAVE ALSO BEEN DIRECTED TO LIMIT THE USE OF THEIR PURCHASE AUTHORITY BY RELYING UPON ASHORE PURCHASING SUPPORT TO THE MAXIMUM EXTENT POSSIBLE. QUOTA REQUESTS FOR SMALL PURCHASE TRAINING ARE BEING MADE AVAILABLE TO ENSURE SHIPBOARD PURCHASING PERSONNEL RECEIVE ADEQUATE PURCHASING TRAINING.

THE BUY OUR SPARES SMART (BOSS) PROGRAM, AS WELL AS SEVERAL OTHER PURCHASE INITIATIVES DESIGNED TO IMPROVE THE PURCHASING FUNCTION IN NAVY, DIRECTLY ADDRESS MANY OF THE SAME PROBLEMS FOUND ON KITTY HAWK. THESE PROGRAMS FOCUS ON IMPROVING PRICING, INCREASING COMPETITION, IMPROVING TRAINING, AND STRENGTHENING OVERSIGHT OF THE PURCHASE FUNCTION. RESULTS OF THESE PROGRAMS IN TERMS OF STRENGTHENING THE PURCHASE FUNCTION HAVE BEEN IMPRESSIVE AND WE ARE TAKING STEPS TO TRANSFER ASHORE THE MAJORITY OF OUR AFLOAT PURCHASE WORKLOAD. THIS WILL BOTH TAKE ADVANTAGE OF OUR IMPROVED ASHORE PURCHASING PROCEDURES AND WILL ALSO REMOVE THE MAJOR PART OF THE PURCHASING FUNCTION FROM A SHIPBOARD ENVIRONMENT AND

ITS HECTIC OPERATING TEMPO. CARRIERS WILL, OF COURSE, RETAIN CONTRACTING AUTHORITY NECESSARY TO ACCOMPLISH THE PURCHASE FUNCTION BOTH OVERSEAS AND ALSO IN EMERGENCY SITUATIONS WHEN OPERATING IN CONUS. ACTIONS TO TRANSFER THE FUNCTION ARE ALREADY UNDERWAY. AT SOME STOCK POINTS, WE HAVE SET UP SMALL WATERFRONT PURCHASING BRANCHES WHICH ARE PROVIDING SHIPS WITH DEDICATED PURCHASING SUPPORT. TO FULLY PROCESS THE INCREASED WORKLOAD ASHORE, HOWEVER, WILL REQUIRE ADDITIONAL RESOURCES. SPECIFICALLY, WE WILL NEED 360 ADDITIONAL PROCUREMENT, CONTRACTING MANAGEMENT REVIEW AND TECHNICAL PERSONNEL, ALONG WITH INCREASED SUPPORT FUNDING.

- THERE WERE INSTANCES OF FISCAL IRRESPONSIBILITY.

THERE ARE NUMEROUS ALLEGATIONS UNDER THIS HEADING, BUT THERE ARE TWO CONSIDERED TO HAVE SUBSTANCE. THERE IS REASON TO BELIEVE THAT AN OFFICER ORDERED TEXTBOOKS FOR PERSONAL USE. THIS OFFICER HAS BEEN DIRECTED TO PAY FOR THE COST OF THE BOOKS. SECONDLY, THERE WERE INACCURACIES BETWEEN OPTAR LOG FINANCIAL RECORDS AND COMPUTER FINANCIAL RECORDS. I DISCUSSED THIS ISSUE AND CORRECTIVE ACTION EARLIER IN THIS STATEMENT.

THERE IS NO EVIDENCE OF GENERAL FISCAL IRRESPONSIBILITY ONBOARD KITTY HAWK. FOR EXAMPLE, THE ENGINEERING DEPARTMENT WAS ALLEGED TO HAVE OVERSPENT ITS QUARTERLY OPTAR BY $500K. THIS WAS DONE USING THE FOLLOWING QUARTER'S OPTAR WITH COMMANDING OFFICER APPROVAL IN ORDER TO "TOP-OFF" INVENTORIES PRIOR TO DEPLOYMENT. THERE IS NO EVIDENCE THAT THE ELECTRICAL DIVISION STOCKED MATERIAL THAT WAS NOT INTENDED TO BE USED IN FY83. THE STOCKING OF MATERIAL BASED ON ANTICIPATED FAILURE RATES IS PRUDENT INVENTORY MANAGEMENT.

- THERE WAS IMPROPER HANDLING OF MATERIAL.

  THE HANDLING OF MATERIAL ON KITTY HAWK IS GENERALLY EFFECTIVE. THERE IS REASON TO BELIEVE, HOWEVER, THAT ON ONE OR TWO ISOLATED INSTANCES DURING THE KITTY HAWK'S FY 84 WESTPAC DEPLOYMENT, AN IMPROPERLY SUPERVISED WORKING PARTY THREW MATERIAL OVER THE SIDE BECAUSE OF PRESSURE TO CLEAR THE DECK FOR FLIGHT OPERATIONS. THIS WAS NOT A ROUTINE OR AN ACCEPTED PRACTICE ON KITTY HAWK, BUT AN UNACCEPTABLE OCCURRENCE. KITTY HAWK HAS TAKEN ACTION TO IMPROVE SUPERVISION OF UNDERWAY REPLENISHMENTS.

  THERE WAS ALSO AN INCIDENT WHERE AN UNAUTHORIZED PETTY OFFICER WAS GIVEN THE KEYS TO A STOREROOM TO BREAK OUT HIS OWN SUPPLIES IN DIRECT CONTRADICTION TO KITTY HAWK PROCEDURES.

  IN 1983, THERE WAS AN INCIDENT IN WHICH SILVER ANODES WERE STOLEN ONBOARD KITTY HAWK. NIS INVESTIGATED THE INCIDENT AND, AS A RESULT, ONE PETTY OFFICER WAS CHARGED AND HAS BEEN AWARDED A COURT MARTIAL. THE INVESTIGATION IS STILL ONGOING TO FIND OTHER INDIVIDUALS INVOLVED. FURTHER, ISSUE RESTRICTION CODES HAVE BEEN ESTABLISHED IN THE SUPPLY SYSTEM TO PREVENT THE AUTOMATIC ISSUE OF THIS MATERIAL WITHOUT PROPER AUTHORIZATION.

IT HAS ALSO BEEN ALLEGED THAT KITTY HAWK LOST OR HAD STOLEN $14 MILLION IN SPARE PARTS. THE $14 MILLION IN QUESTION IS THE INITIAL DIFFERENCE BETWEEN THE KITTY HAWK'S COMPUTERIZED INVENTORY RECORDS AND ITS PREDEPLOYMENT STOREROOM INVENTORY COUNT. IT IS THE RESULT OF PURIFYING AND UPDATING KITTY HAWK'S INVENTORY AND RECORDS DURING THE TURN AROUND CYCLE BETWEEN TWO DEPLOYMENTS TO THE WESTERN PACIFIC AND INDIAN OCEANS. THE STAFF OF THE COMMANDER, NAVAL AIR FORCE PACIFIC FLEET AND A TEAM OF FINANCIAL INVENTORY EXPERTS, THROUGH A RECONCILIATION PROCESS, HAVE REDUCED THE $14 MILLION TO $5.9 MILLION; FURTHER REDUCTIONS ARE ANTICIPATED AS WE EXPAND THE RECONCILIATION PROCESS TO SUPPLY SYSTEM RECORDS ASHORE.

THE $8.1 MILLION CORRECTION IS PREDOMINATELY DUE TO HUMAN ERROR ASSOCIATED WITH MANAGING A HIGHLY VOLATILE $230 MILLION INVENTORY. MOST OF THE REMAINING $5.9 MILLION IS ALSO CONSIDERED TO BE HUMAN ERROR AND THE RECONCILIATION WILL CONTINUE TO FIND THESE ERRORS.

AS AN ADDITIONAL EFFORT, THE LIST OF PARTS HAS BEEN COMPARED TO THE FBI LISTING OF IRANIAN THEFT AND THERE ARE NO MATCHING ITEMS. THIS EFFORT STILL DOES NOT SATISFY THE POSSIBILITY THAT THE IRANIANS GOT F-14 PARTS FROM THE KITTY HAWK THAT WERE NOT ON FBI LISTINGS. TO ADDRESS THIS CONJECTURE, WE HAVE TAKEN THE F-14 PARTS ON THE KITTY HAWK LISTING AND ARE CONDUCTING A CRADLE-TO-GRAVE (BEGINNING INVENTORY TO CURRENT INVENTORY) SYSTEM-WIDE AUDIT TO DETERMINE IF THERE HAVE EVER BEEN ANY LOSSES. THIS AUDIT WILL TAKE A CONSIDERABLE AMOUNT OF TIME SINCE IT SPANS 15 YEARS.

THE FINAL ALLEGATION I WILL ADDRESS IS THAT THE AGE, COMPLEXITY AND SATURATION OF OUR AUTOMATED DATA PROCESSING SYSTEMS ARE SYSTEMIC PROBLEMS MAKING THE SUPPLY SYSTEM MORE SUSCEPTIBLE TO PENETRATION AND MANIPULATION.

COMPUTER SYSTEMS VULNERABILITIES

THE NEED TO MODERNIZE AND IMPROVE THE SECURITY OF OUR LOGISTIC COMPUTER SYSTEMS WAS RECOGNIZED BY THE NAVY SEVERAL YEARS AGO AND, IN FACT, WE HAVE COMPREHENSIVE, ON-GOING PROGRAMS ALREADY AUTHORIZED AND BUDGETED TO SATISFY THESE CRITICAL REQUIREMENTS. WE HAVE TAKEN A HARD LOOK AT THESE PROGRAMS TO DISCERN HOW WE CAN BETTER USE OUR AUTOMATED TOOLS TO HEIGHTEN SECURITY AWARENESS AND DETER THEFT.

IN THE LATE 70'S WE RECOGNIZED THAT MANY OF THE LONGSTANDING PROBLEMS IN PERFORMING OUR SPARE PARTS FUNCTIONS HAD THEIR ROOTS IN OUR OBSOLETE COMPUTER SYSTEMS. OUR MAIN BATTERY OF ADP EQUIPMENT USED FOR LOGISTICS MANAGEMENT ABOARD OUR SHIPS AND ASHORE AT OUR SUPPLY CENTERS AND INVENTORY CONTROL POINTS WAS MID-60'S VINTAGE WITH NEITHER SUFFICIENT COMPUTING CAPACITY NOR MODERN TECHNICAL CAPABILITIES TO SUPPORT OUR HIGH-VOLUME ACCOUNTING REQUIREMENTS. THE INVENTORY AND FINANCIAL ACCOUNTING SYSTEMS HAD BECOME EXTRAORDINARILY COMPLEX AND CUMBERSOME. THE SYSTEMS WERE

ALSO VERY RELIANT ON PAPERWORK AND KEYPUNCH PROCESSES TO GET INFORMATION INTO THEM. PRIMITIVE SECURITY ACCESS CONTROL SOFTWARE, PRIMARILY DESIGNED FOR OPERATIONS INSIDE THE COMPUTER SPACES, PROVIDED ONLY MINIMAL PROTECTION FOR PERMITTING ELECTRONIC ACCESS TO OUR DATA VIA VIDEO DISPLAY TERMINALS. THE INEFFICIENCIES IN CONDUCTING OUR BUSINESS CAUSED BY OUR "MUSEUM-ELIGIBLE" ADP HARDWARE AND SOFTWARE WERE HIGHLIGHTED BY THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL IN 1983.

WE ARE NOW ENGAGED IN ONE OF THE LARGEST COMPUTER MODERNIZATION PROGRAMS UNDERTAKEN BY THE GOVERNMENT SECTOF COMPLETE REPLACEMENT OF OUR COMPUTERIZED SYSTEMS IS A HIGH TECHNOLOGY, LONG TERM EFFORT. WE ARE USING A THREE PHASED APPROACH TO MINIMIZE RISK FOR RESYSTEMIZING THE AUTOMATED LOGISTICS SYSTEMS BOTH AFLOAT AND ASHORE. FIRST, REPLACEMENT ADP EQUIPMENT IS BEING COMPETITIVELY ACQUIRED AND INSTALLED. SECOND, CURRENT APPLICATION SOFTWARE IS BEING TRANSITIONED TO THE NEW, FASTER HARDWARE. LASTLY, APPLICATION SOFTWARE SYSTEMS ARE BEING REDESIGNED TAKING ADVANTAGE OF THE STATE-OF-THE-ART MACHINE CAPABILITIES.

LOOKING FIRST AT SHIPBOARD DATA PROCESSING, IN JUNE 1982, A CONTRACT VALUED AT OVER HALF A BILLION DOLLARS WAS COMPETITIVELY AWARDED FOR THE SHIPBOARD NON-TACTICAL ADP PROGRAM I (SNAP I) WHICH INCLUDES REPLACEMENT COMPUTER SYSTEMS FOR OUR CARRIERS, TENDERS AND FLEET RESUPPLY SHIPS. THE INITIAL COMPUTER CONFIGURATIONS HAVE BEEN INSTALLED ONBOARD 60 OF THE 61 TARGETED SHIPS AND THE EXISTING BATCH PROCESSING SOFTWARE IS NOW RUNNING ON THE NEW EQUIPMENT. THIS APPROACH PROVIDES SUFFICIENT COMPUTER CAPACITY TO GET TODAY'S WORK PROCESSED TODAY AND HAS SIGNIFICANTLY REDUCED COMPUTER DOWNTIME WHICH HAS PLAGUED TIMELY POSTING OF INVENTORY TRANSACTIONS. INTERIM RELEASES OF REDESIGNED APPLICATION SOFTWARE SYSTEMS ARE NOW BEING IMPLEMENTED AND SHIPS WILL HAVE SIGNIFICANTLY IMPROVED INVENTORY AND FINANCIAL ACCOUNTING TOOLS STARTING IN APRIL 1986. THESE SYSTEMS WILL PERMIT AUTHORIZED USERS TO INPUT INFORMATION DIRECTLY ON-LINE WITH EDITS, VALIDATION AND ERROR CORRECTION OF INPUT DATA BEING PERFORMED ON A REAL TIME BASIS. SIMILARLY, THE SHIPBOARD NON-TACTICAL ADP PROGRAM II (SNAP II) CONTRACT WAS AWARDED IN NOVEMBER 1981 TO INSTALL COMPUTER SYSTEMS

ON THE REMAINDER OF OUR SHIPS AND SUBMARINES WHICH WERE PREVIOUSLY ENTIRELY MANUAL OPERATIONS FOR SUPPLY-RELATED FUNCTIONS. THESE COMPUTER SYSTEMS HAVE ALREADY BEEN INSTALLED IN OVER 90 OF THE 450 UNITS TARGETED FOR INSTALLATION. SUPPLY AND FINANCIAL ACCOUNTING SOFTWARE MODULES ALONG WITH MODERN SECURITY ACCESS SYSTEMS ARE KEY SEGMENTS OF THE INITIAL IMPLEMENTATIONS.

MOVING TO THE SHORE ENVIRONMENT, WE ARE 8 YEARS INTO A 12-YEAR COMPUTER SYSTEM MODERNIZATION EFFORT AT OUR TWO NAVY INVENTORY CONTROL POINTS. A SEVERAL HUNDRED MILLION DOLLAR, 8-YEAR CONTRACT WAS COMPETITIVELY AWARDED IN FEBRUARY 1984 FOR THIS PROGRAM, FAMILIAR TO SOME OF YOUR COLLEAGUES AS "ICP RESOLICITATION." TECHNOLOGY REFRESHMENT OPTIONS WERE INCLUDED TO AVOID OBSOLESCENCE PITFALLS. MODERN HARDWARE HAS NOW BEEN INSTALLED AND ALL PRESENT APPLICATION SOFTWARE SYSTEMS WILL BE FULLY TRANSITIONED TO THIS STATE-OF-THE-ART ENVIRONMENT. IMPLEMENTATION OF THE FUNCTIONALLY REDESIGNED SYSTEMS IS SLATED FOR MARCH 1989. THESE NEW ON-LINE SYSTEMS REPRESENT A QUANTUM LEAP FORWARD IN THE CAPABILITIES TO CONTROL OUR WHOLESALE INVENTORIES AS WELL AS CONFIGURATION MANAGEMENT OF OUR SHIPBOARD AND AVIATION WEAPONS SYSTEMS. COMMERCIAL DATA MANAGEMENT SOFTWARE PACKAGES WILL YIELD DRAMATIC IMPROVEMENTS IN DATA ANALYSIS AND ACCURACY. THE IMPLEMENTATION OF THE RESOURCE ACCESS CONTROL FACILITY SOFTWARE, ONE OF ONLY TWO SOFTWARE PRODUCTS CURRENTLY ACCREDITED BY THE COMPUTER SECURITY CENTER OF THE NATIONAL SECURITY AGENCY, WILL ESTABLISH STRICT ACCOUNTABILITY FOR THE USE OF OUR INFORMATION RESOURCES. THE ICP RESOLICITATION PROGRAM HAS ALSO INSTALLED STATE-OF-THE-ART HARDWARE TO ISOLATE ALL OF OUR CLASSIFIED PROCESSING REQUIREMENTS, MINIMIZING DATA EXPOSURE RISKS.

WE ARE 5 YEARS INTO A 14-YEAR COMPUTER MODERNIZATION EFFORT AT OUR NAVY STOCK POINTS. THIS STOCK POINT ADP REPLACEMENT (SPAR) PROJECT IS IN THE LATE STAGES OF THE ACQUISITION PHASE WITH COMPETITIVE CONTRACT AWARD EXPECTED BY JANUARY 1987. THIS INITIATIVE REPLACES HARDWARE AT 40 SITES, INCLUDING NAVAL SUPPLY CENTERS, MARINE CORPS AIR STATIONS, NAVAL AIR STATIONS, NAVY REGIONAL DATA CENTERS AND NAVY CONSTRUCTION BATTALION CENTERS WHICH PROVIDE SUPPLY RELATED ADP SUPPORT TO OVER 90 SHORE

ACTIVITIES. THE SPAR POLICIES AND CONCEPTS STRESS ASSET ACCOUNTABILITY, DATA SECURITY, TECHNOLOGY REFRESHMENTS AND AUDIT TRAILS. THE DECISION SUPPORT SOFTWARE DELIVERED IN THIS PROGRAM WILL SIGNIFICANTLY IMPROVE CONTROL OF OUR INVENTORIES.

WE RECOGNIZED AT THE BEGINNING OF THIS DECADE THAT WE COULD NOT WAIT UNTIL THE LATE 80'S TO MAKE SUBSTANTIVE IMPROVEMENTS VIA THE SPAR PROCESS AND AS A RESULT HAVE A NUMBER OF INTERIM COMPUTER SYSTEM DEVELOPMENT INITIATIVES IN PROGRESS TO COMBAT TODAY'S DEFICIENCIES. IN NOVEMBER 1983, WE COMPETITIVELY AWARDED A 15-YEAR CONTRACT TO UPGRADE THE ADP TELECOMMUNICATIONS SUPPORT AND TO PROVIDE ON-LINE TRANSACTION PROCESSING CAPABILITIES AT OUR STOCK POINTS. TO DATE, STOCK POINT LOGISTICS INTEGRATED TELE-COMMUNICATIONS ENVIRONMENT (SPLICE) SYSTEMS HAVE BEEN IMPLEMENTED AT OUR SEVEN SUPPLY CENTERS AND THE TRIDENT REFIT FACILITY IN BANGOR, WASHINGTON. THESE SYSTEMS HAVE EXTENSIVE SECURITY FEATURES BUILT IN WHICH ENHANCE ASSET VISIBILITY AND PROVIDE CAPACITY FOR PERFORMING ON-LINE CAUSATIVE RESEARCH. SPLICE SYSTEMS ALSO FACILITATE INTRODUCTION OF AUTOMATED BAR CODE READING DEVICES FOR PERFORMING RECEIVING, STOWING, INVENTORY AND ISSUE FUNCTIONS. IN MODERNIZING OUR PHYSICAL DISTRIBUTION PROCESSES, WE HAVE ENTERED INTO PRODUCTION VARIOUS ADP TECHNIQUES WHICH PROVIDE FOR POSITIVE PROCESS CONTROL OF MATERIAL AS IT MOVES THROUGH THE WAREHOUSE SYSTEM. COMPUTER TERMINALS LOCATED THROUGHOUT THE WAREHOUSES GIVE WAREHOUSE PERSONNEL STEP-BY-STEP INSTRUCTIONS FOR THE RECEIPT, STOW AND ISSUE OF MATERIALS, REDUCING THE POSSIBILITY OF ERROR WHILE PROVIDING AUDIT TRAILS FOR FRAUD, WASTE AND THEFT DETECTION.

THE MODERNIZATION OF, AND INTERIM UPGRADES TO, OUR CURRENT LOGISTICS COMPUTER SYSTEMS HAVE STRENGTHENED OUR ADP SECURITY PRACTICES. EFFECTIVE IDENTIFICATION AND AUTHENTICATION SOFTWARE IS NOW INSTALLED ON OUR ADP SYSTEMS, AND ALL REASONABLE MEASURES HAVE BEEN TAKEN, GIVEN THE TRADEOFF BETWEEN SECURITY AND PRODUC-TIVITY. OUR SYSTEMS' VULNERABILITY TO ACCESS OR MANIPULATION BY "HACKERS" IS LOW AS CONFIRMED BY A SERIES OF PENETRATION DRILLS. OUR HIGHEST RISK IS TO "INSIDERS" WHO ARE AUTHORIZED ACCESS TO OUR INFORMATION RESOURCES AND CAN DIVERT SPARE PARTS THROUGH COLLUSION

STEPPING UP USE OF BOTH THEFT PREVENTION AND THEFT DETECTION SOFTWARE TECHNIQUES TO ADDRESS THIS INSIDER RISK. THESE TECHNIQUES DOVETAIL WITH OUR PHYSICAL SECURITY AND RELIABILITY INITIATIVES.

SUMMARY

TODAY, I HAVE EXPLAINED THE FUNDAMENTALS OF HOW THE SUPPLY SYSTEM WORKS, BOTH IN GENERAL AND MORE SPECIFICALLY ABOARD AN AIRCRAFT CARRIER. I HAVE SHOWN THE DRAMATIC READINESS IMPROVEMENTS THAT WE HAVE REALIZED WITH THE STRONG AND CONTINUING SUPPORT OF THIS COMMITTEE. I HAVE ALSO TRIED TO PROVIDE A BASIC UNDERSTANDING OF THE SIZE AND COMPLEXITY OF THE SYSTEM AND THE EFFECT OF THE OPERATIONAL TEMPO ON THE AFLOAT SUPPLY ENVIRONMENT. MY INTENT WAS TO PLACE IN CONTEXT BOTH THE ASHORE AND AFLOAT SUPPLY SYSTEMS WHILE ADDRESSING THE CRITICAL ALLEGATIONS THAT HAVE BEEN RAISED OVER THE LAST SEVERAL MONTHS. I DISCUSSED THOSE RELATING TO READINESS AND THEFT OF SPARE PARTS FOR IRAN; THOSE RELATING TO KITTY HAWK; AND, FINALLY, COMPUTER VULNERABILITIES. MY DISCUSSION OF THE NIS AND JUSTICE INVESTIGATION HAS BEEN LIMITED TO THOSE ASPECTS THAT WILL NOT DAMAGE THE CURRENT CASE AGAINST THE INDIVIDUALS ACCUSED.

FROM THE IRAN THEFT SITUATION WE HAVE LEARNED THAT NO CLASSIFIED F-14 OR PHOENIX MISSILE PARTS WERE STOLEN AND THAT THERE IS A VERY LOW PROBABILITY OF OUTSIDER COMPUTER PENETRATION. HOWEVER, WE DID LEARN THAT WE ARE VULNERABLE TO A KNOWLEDGEABLE SYSTEM OPERATOR WHO IS IN COLLUSION WITH ANOTHER INSIDER CAPABLE OF RECEIVING THE PARTS. THIS SHOWED US THAT PHYSICAL SECURITY HAD TO BE REEMPHASIZED AND OUR ABILITIES TO DETER INSIDER THEFT NEEDED TO BE STRENGTHENED. WE ARE PROMULGATING A STRICT CODE OF PERSONAL ETHICS FOR ALL MATERIAL AND FINANCIAL MANAGERS, BOTH OFFICER AND ENLISTED. WE ARE PLACING TIGHTER CONTROL ON THE MOST EXPENSIVE, AND ANY FOREIGN POWER TARGETED, REPAIR PARTS. THE STOREKEEPERS AND COMPUTER OPERATORS WHO MANAGE AND CONTROL THESE CRITICAL ASSETS WILL BE PLACED IN A RELIABILITY PROGRAM SIMILAR TO WHAT WE USE TO SCREEN AND MAINTAIN QUALITY AMONG OUR NUCLEAR PERSONNEL. ALSO, WE WILL INCREASE THE NUMBER OF SUPPLY OPERATIONS INVESTIGATIONS IN ORDER TO BUILD AN ENVIRONMENT THAT THWARTS THIEVES. IN SHORT WE ARE TAKING THE THEFT SITUATION VERY SERIOUSLY.

IN ANALYZING THE ALLEGATIONS ABOUT THE SUPPLY SYSTEM ABOARD KITTY HAWK, WE LEARNED THAT A NUMBER OF ALLEGATIONS WERE UNFOUNDED. THERE WAS NO FRAUDULENT PREPARATION OF OFFLOAD DOCUMENTS, NO COVER-UP OF IMPROPER PURCHASING, NO FRAUDULENT OPTAR LOG MAINTENANCE, NO KICKBACKS FROM COMMERCIAL REPRESENTATIVES, NO BLACKMARKETING, AND NO FRAUDULENT 1983 BUDGET OPTAR REPORT. UNFORTUNATELY, HOWEVER, WE DID FIND SOME FACTUAL ALLEGATIONS AND THESE WE ARE PURSUING. MOST INVOLVED INDIVIDUAL POOR JUDGMENT WITH NO CRIMINAL INTENT OR FAILURE TO FOLLOW ESTABLISHED PROCEDURES. IN ADDITION, THE AFLOAT PURCHASING PROBLEM SHOWED AN AREA WE NEED TO CONCENTRATE ON THROUGHOUT THE SYSTEM. WE HAVE TACKLED THIS ONE WITH VIGOR AND WILL MOVE THE MAJORITY OF THE AFLOAT PURCHASING EFFORT ASHORE. THIS SOLUTION WILL RESULT IN A REQUIREMENT OF ABOUT 360 PEOPLE TO STAFF PIERSIDE FACILITIES SO THAT THEY CAN RESPOND TO THE AFLOAT NEEDS IN A TIMELY AND CORRECT MANNER. THIS ACTION WILL PLACE THIS FUNCTION WHERE IT MORE PROPERLY BELONGS, IN THE SHORE SUPPORT ESTABLISHMENT, AWAY FROM THE HECTIC ATMOSPHERE OF DAY-TO-DAY SHIPBOARD OPERATIONS.

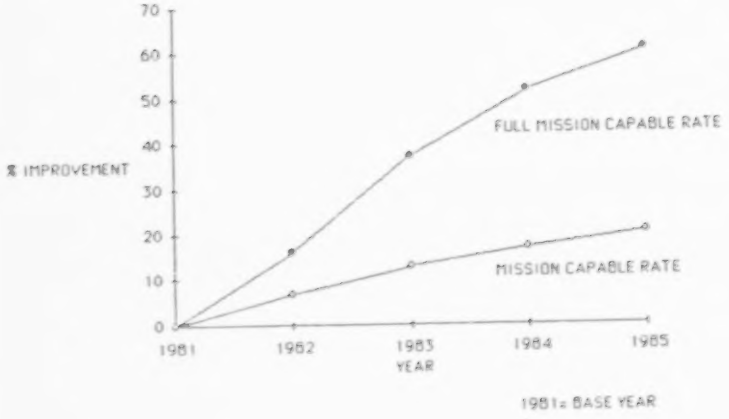
I ALSO DISCUSSED THE LONG TERM MODERNIZATION EFFORT THAT WE HAVE UNDERTAKEN TO BRING OUR COMPUTER SYSTEMS, BOTH AFLOAT AND ASHORE, INTO THE MODERN WORLD. THESE SYSTEMS ARE KEY TO OUR IMPROVED MANAGEMENT CAPABILITIES WITH REGARD TO CONTROL OF THE SCARCE ASSETS PROVIDED BY THE TAXPAYER. THESE SYSTEMS NOT ONLY HAVE THE ABILITY TO TIGHTEN OUR ACCOUNTING AND PROVIDE BETTER CONTROL OF OUR ASSETS, BUT BECAUSE OF THEIR DESIGN WILL INCREASE OUR SYSTEM SECURITY.

WITHOUT QUESTION OUR RECENT INTROSPECTIVE LOOK HAS ASSURED US THAT THE FOUNDATION OF THE NAVY SUPPLY SYSTEM, BOTH AFLOAT AND ASHORE, IS SOUND AND THAT OUR READINESS IS THE HIGHEST IT HAS BEEN IN A DECADE. HOWEVER, THIS CRITICAL REVIEW HAS ALSO PROVIDED INSIGHT INTO A NUMBER OF PROBLEMS WHICH REQUIRE IMMEDIATE AND EFFECTIVE CORRECTIVE ACTION. IN THIS REGARD, WE HAVE LEARNED MUCH. WE HAVE ASSESSED OUR VULNERABILITIES AND ARE TAKING THE IMMEDIATE CORRECTIVE ACTIONS I HAVE DISCUSSED, ALONG WITH MANY OTHERS, AND ARE INCORPORATING LESSONS LEARNED INTO OUR SYSTEM MODERNIZATION EFFORTS.

GENTLEMEN, THAT COMPLETES MY PREPARED STATEMENT. I APPRECIATE THE OPPORTUNITY TO ADDRESS THE COMMITTEE. I AM READY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

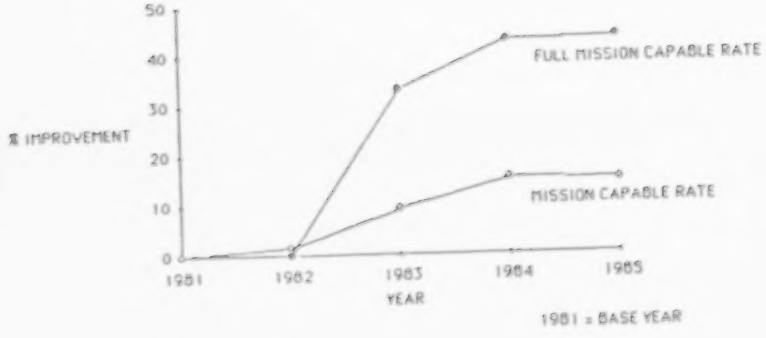
ATTACHMENT A

All Deployed Aircraft Readiness Rate Improvement



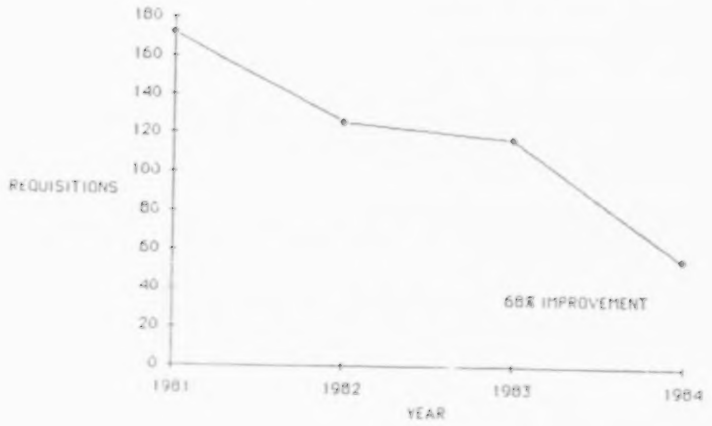
ATTACHMENT B

Deployed Carrier Aircraft Readiness Rate Improvement



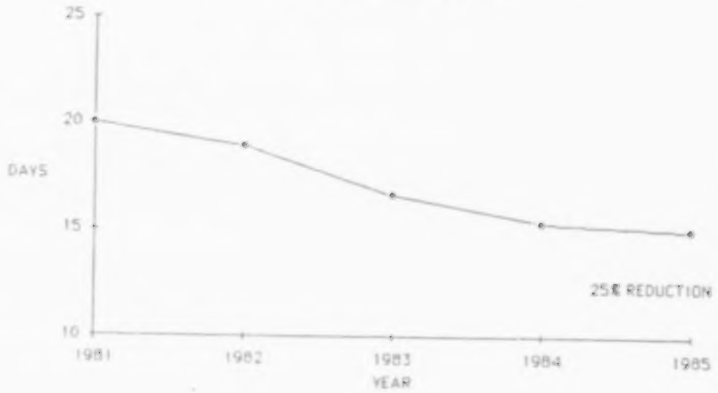
ATTACHMENT C

Average Number of Aircraft Mission Critical Requirements Submitted by Deployed Carriers



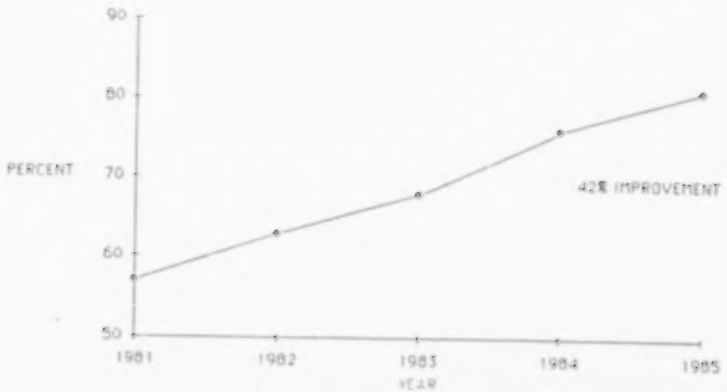
ATTACHMENT D

Average Customer Wait Time for Mission Critical Spare Parts - Surface Ships



ATTACHMENT E

Percent of Time Surface Ships Free of Mission Limiting Equipment Casualties



Mr. BENNETT. Well, thank you very much for coming, and I know of your good work, and your achievement in the Navy, and of your integrity and your fine work. I know you are approaching this with every effort to try to improve things.

There are things that have come up that kind of worry me about this. One of them is the reaction I have to the computer. It is hard for a guy born in 1910 to get real excited about computers, and I have them all over my office and my own experience is they do me more harm than they do me good.

That is probably my mistake. It looks like there needs to be a fallback in the Navy when the computer doesn't work. There have to be some people around that know what the basic system is, plus the fact, I would think, the computers ought to be as parallel as possible to the human endeavor.

We ought not to adjust to the computers, but the computers ought to adjust to us, so there wouldn't be a great mystery area for the person to encounter if the computer broke down.

That is the impression I have from what testimony we had today. That is the computer doesn't seem to add very much to our ability in the Navy, it seems to have greatly subtracted, and I am not trying to run down the computers, I realize they are here to stay and things are going to come along in the future that are going to make them even better.

I wasn't here when people moved from candles to gas to light buildings, but new dangers were involved and new problems were involved, and we didn't have the same thing when we went to electricity.

But I just don't really believe the Navy has really adjusted to the computer very well, and have you given any thought to what this young lad said this morning about the fact that a lot of people that are backing up the computers with human knowledge don't have the knowledge at all, and if the computer doesn't work, they don't know what to do.

Commodore WHITTAKER. Some very important points were made this morning, if we are talking about funds, on board the *Kitty Hawk*, I think that is where your question is.

The computer on board the *Kitty Hawk* provides the official records for the operating funds which are expended on board. If the Congress were to appropriate money for the Navy Department, let's say in this fiscal year, it would go through the Comptroller of the Navy, through the Commander-in-Chief of the Fleet, also then go down to the Type Commander (TYCOM).

We have very stringent budget records and reports required at those levels. We do not have the same requirements on board ship. Once we move from the TYCOM level and go down to the ship level, the computer then provides the basic interface with the accounting system ashore. The budget levels on board ships then go from the Commanding Officer (CO) who controls the funds, down through the Department head, which we were talking about this morning, then down to division officiers.

These are operating targets. These are unofficial checkbook records that, from a very finite standpoint, don't back up the computer. The computer is the official record.

When the ship gets charged for material, it is on the computer. There is no question that supply petty officers could use more training on the memorandum records; in fact, that was Petty Officer Jackson's job.

He was the training petty officer responsible to provide the capability for the supply petty officers on board the ship to understand the interface between the memorandum records and the computer.

So that is exactly what his job was, after the many months that he studied to do it. They are not backing up the computer, the computer is the official record. The way the system works, the computer and people working in the supply divisions will make sure that the computer is updated officially.

Mr. BENNETT. One thing I didn't quite understand this morning was when they said the computer said you are in the red, all you had to do was pick up the telephone and call somebody and get back in the black.

I wish that kind of computer could be furnished to me at home.

Commodore WHITTAKER. I think sometimes my wife has that kind of computer. The process on board any ship in the Navy and on board the *Kitty Hawk* specifically is that the dollars come in from the type commander to the CO, the supply officer is the person who takes care of those funds, the supply officer will give the CO an idea of how his budget should be allocated, the Department heads will discuss it and then that allocation will be made to happen.

That is a formal process. When the dollars are given out on a quarterly basis, if a new requirement comes up, something unbudgeted, et cetera, there is probably 5 or 10 percent of those funds that are held back, reserved, normally called a CO Reserve.

If any Department head, Communications, Operations, Engineers, et cetera, needs more funds, he must request it to the commanding officer. It goes via the supply officer who says yes or no, from a professional supply standpoint, then the CO makes the final decision.

I wish we had a better system sometimes, but that is the way it works.

Mr. BENNETT. Mr. Spence.

Mr. SPENCE. Thank you, Mr. Chairman.

I am about the same way, I have so many questions. It is kind of like in listening to the trim of a case, listening to one side, you know your mind is made up, there can't be any answer to all those things, then you listen to the other side, and well, gosh, that first side didn't make any sense.

The way you explain this system, of what is going on, of the ship, the big picture, so to speak, what is going on on the ship, did somebody sit this young fellow down and explain to him maybe that the whole picture is not on the ship there, that what happened off the ship has relevance to it, and did he understand that, does he still persist in saying these things happened, or you don't know?

Commodore WHITTAKER. I know there were many discussions on board the *Kitty Hawk* between Mr. Jackson and people in the supply department, the supply officers and assistant supply officer. I have not personally sat him down and told him that, but obviously, from the point of the internal recordkeeping, and how he kept,

let's say, the checkbook next to the official records, that was specifically his job. He spent a lot of time and that obviously had some aptitude for that, but I have not specifically sat down and given him an hour's discussion on the Navy supply system.

Mr. SPENCE. What I can't understand is how someone—it wouldn't really make any difference, it seems to me—on board ship, if you have somebody like him, doing his job, if you can explain it.

Commodore WHITTAKER. Where it is important, let's say I am the engineering officer or the operations officer, and I have 1,000 people working for me or 500 people, I have a certain amount of things that the C.O. says I can use his funds for. I have to perform a job I need to keep some sort of track of that. I need a log of what I have ordered. I have pumps going down every day. I have got 35 knots I have to make. I have a lot of requirements I have to make sure this system keeps my ship up and running.

I have to know what my requisition number is and where the requisition goes. So, yes, there is a need for me as the operational line manager to have some memorandum records. It is not back up to the official ship records and it is not going to affect those official ship records. But I, as line manager, need that sort of support, because we are talking about sitting in the I.O., as you know, for 3 or 4 months at a time. A lot of the main feed pumps go down, and I need to know my requisition status.

Mr. SPENCE. I can understand that. What I am saying is, someone with his on-the-job training, sits there every day and does it day in and day out, he is confined to that area, I am sure. Don't you think he has some idea or someone told him sometime that what you are doing is important and pertains to this, but, that is not the final answer. It is appropriate to go to the CO and get these other funds. You can call down and other funds off the ship are allotted to you and a lot of bookkeeping is involved. If he knows anything about his job, someone, somewhere, sometime, and somewhere somebody should have told him that is part of the big picture.

Commodore WHITTAKER. I am sure that has occurred, Mr. Spence.

Mr. SPENCE. Somebody should ask him that question, let him still see if he persists in maintaining these allegations were true. I don't know why he is not sitting there. You heard him explain these things to you, what do you say about that?

Commodore WHITTAKER. Well, one of the very basic points is we don't have a ship's auditor in the Navy, that is not a term, that is not a Navy term. He was a supply petty officer, training petty officer, no more, no less.

We don't have ships' auditors on U.S. Navy ships.

Mr. SPENCE. You don't know why they decided to have one on this?

Commodore WHITTAKER. They didn't decide, sir, they did not have a ship's auditor on the U.S.S. *Kitty Hawk*.

Mr. SPENCE. He just called himself that?

Commodore WHITTAKER. That is my understanding, sir.

Mr. SPENCE. He said that the root of the problem was we just don't have a standard manual recordkeeping system. Is that true,

that we have some kind of manual recordkeeping system that is called something else?

Commodore WHITTAKER. It is true that prior to SNAP II, which is the smaller ship computer system, we had literally every ship in the Navy, that wasn't a carrier or major supply ship, in a manual system.

We have been working a decade to get away from that. We need computers to take care of the volume, the dollars, the assets, that we are dealing with out there, so every effort has been made to get the right computer system with the right business function software, including supply, accounting and financial, so we don't have to have manual records aboard ship.

Mr. SPENCE. I have a note here, supply personnel qualifications standard, PQS. Does that cover these duties of these types of people?

Commodore WHITTAKER. There are several training programs for supply afloat. There is a 4-week course for AK's in San Diego and Norfolk. There is a 3-week senior course in Navy Supply Corps School, Athens, GA, and those are for specifically the people he talked about being the professionals that needed a higher level of knowledge.

Yes, sir, there are some very detailed training course requirements and we do need training in this area.

Mr. BENNETT. Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

Commodore, I think we have to start out by establishing one thing, and that is that for whatever perception the Navy has, that you have personally of Mr. Jackson, he brought some facts forth, he was a sailor who was commended at least several times by his superiors for being effective, he brought facts forth that have spurred your organization to make some changes, and I think we can't sit here and say that, and demean implicitly or otherwise, and say, now here are the 10 steps we are taking to change the situation.

On that point, I have noticed when the last session was over, I have seen several copies of a letter going around that was apparently supposed to be a transcript or letter from him to his buddies, and it has been leaked by the Navy to the press.

I think in light of your excellent reputation, and your qualifications, and the fact that you are coming forward and putting forth these positive ideas that the Navy is going to implement, I don't think that is an appropriate way for the Navy to operate in this appearance before this committee.

I think if you have something that you think goes to this gentleman's credibility, you should put your name behind it and say, here it is. I think by giving some innuendo to the press that will demean him really demeans this proceeding.

I would hope you would either stand behind whatever you are putting out or not leak it out to the press here.

I think there are a couple of things we have to look at here. One thing, as I told Mr. Jackson, that was ironic as he was testifying to the U.S. Congress about using smoke and mirrors to balance your budget, because the U.S. Navy is not alone nor are any particular officers alone in perhaps attempting to do that.

I think one thing that we have to look at is individual accountability, and the F-14 parts—that is the major thing that I was concerned about—go directly to that accountability, because the supply officer from the *Belleau Wood*, as you told me earlier, in fact, ordered or had ordered, on his Master Charge essentially, parts for F-14's that he couldn't possibly use, because he doesn't have any F-14's, and you further said that this gentleman orders about 200 parts a week.

There is something wrong with the system when the supply officer is not capable or does not review his own request list. He has to be capable of reviewing his own request list, and making sure that it jibes with the list that has been given to him by the maintenance command, and that the parts are parts that had been required by the users on that particular ship.

I think the key to this whole thing goes down to the question that was put by the Secretary of the Navy, when he implied that we can't have you going over readiness, and he said we can't have increased readiness without losing some accountability.

Now, Congress wants more accountability, so I am going to have to put more bureaucrats on ship, or as I understand it now, remove that function from the ship, but keep the same number of people on ship. So, I think the key thing that I would like to ask you, the first question, is can we have readiness, and also improve accountability? Are those two things mutually exclusive? I don't think they necessarily are.

The second thing is—and I think the chairman hit this point well—computers are good. The best computers make things simpler. The worst computers or worst computer systems complicate things, and I think to some degree perhaps replicated the bureaucracy in the computer system, and one suggestion that I would have for the chairman of the committee is that perhaps we can ask some people in private industry to make a very quick study, a quick look at how the Navy is putting this new computer system into place, just for our own advising, and report back to us.

Give us, maybe, somebody who is not in the box, to step outside of it, take a look at things and give you the report also, and see if perhaps there are some other approaches that we could take.

One other thing that I think you will agree with is that if we are going to have an effective NIS, the NIS has to be capable of protecting their people, and that means, I think, that they need more clout at the top. That means that the head of the NIS, if he has an informer who needs to be protected, will be able to ensure that that particular individual is taken care of through a nonentity or through removing him from the shop. Otherwise, you are not going to have people who come forward with information if you can't protect him. I think that is a major point that the Navy must agree with.

I understand the necessity to make these ships run, and to launch these aircraft and have this high readiness rate, and it is true that that readiness rate is largely a function of what this committee has done, with increased money for maintenance and for spares. But I think that directs that we have, perhaps, a more efficient system. It is not a reason for having an inefficient system.

The last thing I would say is that I think that this is a very soluble problem. It is a problem we can take care of. The one problem that bothers me a lot is that in the F-14 case, as I understand it, that for each count the worst you can do to the people who have taken these F-14 parts for the Ayatollah and turned them over to him, the worst you can do right now is to penalize them under U.S. codes that provide for illegal export of certain materials, and as I understand it, that is only a 5-year penalty.

Now, if they have done it 20 times, I guess you can add that up and get a 100-year sentence. But I think that we definitely need to have an increase in that punishment if we are going to have a good deterrent. That is a 5-year penalty. And I understand, for example, if the Army officer is punished for the missiles, the TOW missiles, that he was arranging to have transferred—if he has only got one count, he is looking at 5 years. Would you comment on that area also?

Commodore WHITTAKER. The answer to your first question, Mr. Hunter, is yes. We can have improved readiness and improved accountability. I would like to go into the second question Mr. Chairman, if I could, and use the easel for just a moment.

Mr. BENNETT. I guess we have got time.

Commodore WHITTAKER. It will take me about 2 minutes.

Mr. BENNETT. We have a vote, but we haven't had the second bell yet. We will come back right after that.

Commodore WHITTAKER. I would just like to show, in fact, what I talked about in words is the rotatable pool and the effect of Navy management on board this carrier *Kitty Hawk* and any other carrier. We are talking about an inventory of approximately 100,000 items; including 300 items in the rotatable pool worth 39 percent or $78 million; 7,700 "other repairables," worth $92 million; and all other parts worth 15 percent or $30 million. We are talking about intensive management procedures for the "rotatable pool" and the "other repairable" portions. We are managing those in an extremely effective manner.

What that then does it provide, on a throughput basis, intensive managing of the 8 percent silver, including the 300 items in the pool, and the 7,700 "other repairables." This means we are providing intensive management. On one carrier, for $1.5 billion of throughput over a 1-year period, with the procedures between the aircraft intermediate maintenance department, the activity on board, and the supply department. These repairable management procedures take care of $936 million of throughput in the "pool" and another almost $500 million of "other repairables."

The issue is that we are taking a very small portion of the total inventory, and because we have a repair capability on board, we are managing that and having the planes fly.

I don't want the committee to get the feeling, because of the testimony, that we have a lot of slack in this process, because we are trying to take, from a management standpoint, exactly where the dollars are, exactly where the readiness is, and make sure the planes fly and the dollars are accounted for under very intense management procedures.

Mr. SISISKY. If the gentleman will yield, who is in charge of all this inventory?

Commodore WHITTAKER. Who is in charge?

Mr. SISISKY. The supply officer?

Commodore WHITTAKER. The supply officer, yes, sir.

Mr. SISISKY. On board a carrier, what would be his rank?

Commodore WHITTAKER. He would either be a senior Commander or junior Captain.

Mr. BENNETT. We will come back as soon as we cast a vote.

[Recess.]

Mr. BENNETT. You were explaining and anwering questions. I don't know if you had gotten through that explanation.

Commodore WHITTAKER. I think I probably have three more questions to answer for Mr. Hunter.

Mr. BENNETT. While we are waiting for Mr. Hunter to get back, we will ask Mr. Bates to inquire. While he is finding his papers, I would like to say one thing that I feel about what I have heard so far today. I think every officer and every enlisted man that is here, or any former one, would share my feeling. That is, there ought to be a greater ease, a greater feeling of ease to go to your Commanding Officer or to people up above you in the channel to handle the matter.

There is something wrong with the system when a dedicated, fine American in the service, of whatever rank, feels ill at ease to go to those above him. I think that ought to be part of the command instruction. In other words, I think officers or noncoms ought to be told that as part of their responsibility they ought to have open ears and open hearts and open minds to the things that people might bring to them, because I think a lot of this could probably have been solved a lot better if the young man involved had felt at ease to go above. Certainly, he didn't think there were corrupt people above him, but he did feel very apprehensive even about his life apparently, and what a waste of energy.

There is something lacking in the leadership of the military if they can't get over this.

I realize it is an old matter and a lot of people will say it can't be done. But as a private, I went to the commanding general of my division to tell him how he wasn't running things well. That was General Bradley running the 82d at that time, and so I think you can have that kind of attitude, and I have never regretted doing it myself, and I think people should feel they could do that.

That is the end of my remarks. I would now turn to Mr. Bates.

Mr. BATES. Thank you, Mr. Chairman. I know we are pressed for time. I was hoping other members of the subcommittee could be here because I think the questions that I have and the answers will be important, but perhaps we could have a chance to go back over that.

I enjoyed your comments about Robert Jackson, and I would concur and state that he is not on trial here today, and the Navy is not on trial. But what is on trial is the Navy Aviation Supply System's ability to function properly, and I think that we have admitted there are some problems. We want to correct the problem, and in essence to do that we have to get at the truth.

I am having a hard time responding to the response of the Navy, without having a copy of the investigative report that I understand

has been completed. I would like to ask the Commodore if I might have, a copy of that report.

Commodore WHITTAKER. Mr. Bates, I believe a copy of the report has been made available to the committee.

Mr. BATES. I might ask if I might have, for the 44th Congressional District, a copy of the 12-inch investigative report on the U.S.S. *Kitty Hawk* delivered to my office today.

Commodore WHITTAKER. I see no problem with doing that, Mr. Bates.

Mr. BATES. Thank you.

A second question is, Why was Petty Officer Jackson not protected, once he disclosed or made these allegations?

Commodore WHITTAKER. Why was he not protected?

Mr. BATES. Right. Why was he left originally in his same position and then transferred to the North Island Naval Station, the same location, and then eventually after some harassment and concern and discussions, I guess, transferred to Miramar on a temporary basis? The impression that I got was there was no concern for his well-being, in light of what he was alleging, whether it was true or untrue. It's pretty hard stuff.

Commodore WHITTAKER. I believe there was an NIS investigation of the alleged threats that were made against him, and I believe that investigation has been closed.

Mr. BATES. That is why he wasn't protected, once the allegation had been made?

Commodore WHITTAKER. I am not sure that he needed protection, but I believe the allegations were totally looked at by the Naval Investigative Service.

Mr. BATES. If something had happened to him, then we would have been wrong. Right?

Commodore WHITTAKER. If something had happened to him?

Mr. BATES. Right. This whole investigation is filled with incidents of poor judgment, and I am just trying to ascertain whether, in the judgment of the Navy, there was reason to protect Robert Jackson, given these circumstances, or whether there was an attempt not to protect him, or whether there was any thought given to it at all.

Commodore WHITTAKER. In the judgment of the Navy, to my understanding, there was no reason to protect him at that point in time.

Mr. BATES. At any point do you think there was?

Commodore WHITTAKER. That is strictly conjecture, Mr. Bates.

Mr. BATES. Then why was he transferred and later attempted to be protected, or what was the purpose of the eventual transfer?

Commodore WHITTAKER. I thought there was a request to get information from him, and the *Kitty Hawk* was going to sail to the western Pacific. I thought the interest was to have him available, because he was going to be leaving the Navy as of August 30.

Mr. BATES. That is the reason the Navy transferred him?

Commodore WHITTAKER. I don't know. I will be glad to provide that for the record.

[The following information was received for the record:]

Petty Officer Jackson was first transferred, in June 1985, to temporary duty at the Naval Air Station [NAS] North Island at the request of Congressman Bates'

Washington Office (to the San Diego NIS office). This transfer was based upon Jackson's feeling that he was in personal danger if he remained aboard the *Kitty Hawk*. He remained at NAS North Island for approximately 3 weeks. At Jackson's request, he was then transferred to temporary duty at NAS Miramar, because he felt he was still too close to the *Kitty Hawk* and, also, to await administrative processing for separation. He was released from active duty at the end of his regular enlistment on 31 August 1985.

Mr. BATES. All right.

The second question I have, you made reference to a question by Congressman Spence that there is no auditor on the *Kitty Hawk*. I don't know whether we are into a battle of semantics here or just what the problem is, but was I accurate in hearing you say that there is no position defined as auditor on the U.S.S. *Kitty Hawk*?

Commodore WHITTAKER. That is correct.

Mr. BATES. I have a May 22 memorandum from the stock control officer to all S-1 division personnel that indicates the following: Updating routing codes assigned to S-1 personnel Code 71F-2, description, financial auditor AW-2 Jackson.

Commodore WHITTAKER. Financial auditor.

Mr. BATES. Financial auditor.

Commodore WHITTAKER. There is no question——

Mr. BATES. Are we splitting hairs again?

Commodore WHITTAKER. I don't think we are splitting hairs.

Mr. BATES. There is a financial auditor, then. There is not an auditor but a financial auditor. You said there was no such thing as an auditor in the ship, the way I understood it.

Commodore WHITTAKER. We have a number of people——

Mr. BATES. Mr. Flanagan, do you want to join us?

Commodore WHITTAKER. We have a number of people who audit financial documents onboard ships. The context of the question, and I believe the testimony this morning, was the ship's auditor. And the connotation of the ship's auditor is to do auditing for the entire ship. We have a Shipboard Uniform Automatic Data Processing System [SUADPS] that requires financial transaction; 20,000, 30,000, 40,000 a month to be input into the records, and we have a financial audit capability for those transactions.

Mr. BATES. Assuming there is no intent to demean or discredit Robert Jackson, do I have it from the proper authority that there is a financial auditor on the *Kitty Hawk*, and that person was Robert Jackson?

Commodore WHITTAKER. I have no reason to disbelieve your statement there.

Mr. BATES. You further stated that none of the spare parts from the *Kitty Hawk* that could be utilized on the F-14 came from the *Kitty Hawk;* is that correct?

Commodore WHITTAKER. No, I said we do not know specifically that any parts from the F-14, from the *Kitty Hawk*, went to Iran. We do know specifically that no classified parts are missing from the system. To deal with the question of whether any F-14 parts from the *Kitty Hawk* might have gone to Iran, we are doing a cradle-to-grave assessment of F-14 parts throughout the system.

Mr. BATES. So it is possible that parts from the *Kitty Hawk* that could be used on the F-14—and I understand they just added 20 more pilots in Iran to operate their F-14s. Is that correct?

Commodore WHITTAKER. I don't know.

Mr. BATES. There were no classified parts for the F-14 or Phoenix air missile system that reached Iran; is that what your statement is for the record?

Commodore WHITTAKER. I am saying for the record that we took an inventory of the classified F-14 and Phoenix missile parts in the Navy Supply System, and we have no missing classified parts.

Mr. BATES. I am just trying to get at the truth here. We not only have different statements from Mr. Jackson but from you, and I was getting the impression that the authoritative final and definitive statement was that there was no black marketing, there were no F-14 parts missing, there were no classified F-14 parts that reached Iran.

Commodore WHITTAKER. The definitive statement is there is no black marketing, there are no classified F-14 parts missing from the supply system—and your third comment?

Mr. BATES. That was my third comment. I think you forgot my first.

Commodore WHITTAKER. If you would repeat it, I would respond to it.

Mr. BATES. There were no F-14 parts missing from the *Kitty Hawk*?

Commodore WHITTAKER. No; that was not the statement.

Mr. BATES. These are questions I am asking.

Commodore WHITTAKER. The reason we are doing——

Mr. BATES. I am just trying to clarify this. There were F-14 parts missing from the *Kitty Hawk*, right?

Commodore WHITTAKER. The reason we are doing the cradle-to-grave inventory at ASO in Philadelphia is to determine whether——

Mr. BATES. Right, that is 15 years, and I am trying to get at this now, and so I am just trying to understand what you understand as the top spokesman for the Navy. There were missing parts from the F-14 that came from the *Kitty Hawk*. Yes or no?

Commodore WHITTAKER. No.

Mr. BATES. As you understand it?

Commodore WHITTAKER. Directly, no.

Mr. BATES. No. That is what I said. It is not a trick question. So you are saying there were no F-14 parts missing from the *Kitty Hawk*, there were no black marketings, and there were no F-14 classified parts for the Phoenix air missile.

I only wanted to get the record straight on that, because credibility is important, and I am confused by a Los Angeles Times report of August 20 that indicates during a preliminary hearing on the F-14 case and those indictments that were brought, that U.S. District Judge Leland Neilson engaged in an unusual display of candor with George Hunt, the defendant's attorney, when he urged for his client's release on bail or on his own recognizance, and referred to a weekend story in the San Diego Union quoting a Navy official who said that no classified parts for the F-14 or its Phoenix air-to-air missile system reached Iran, and the judge said, and I quote:

" 'I saw the article, and from my own knowledge it's completely false,' said Judge Neilson." Then he described the official quoted in the story as " '* * * some joker in Washington who doesn't know what he is talking about.' "

I am presuming that the judge has seen documents and evidence on which he bases this statement, and I would ask for your response.

Commodore WHITTAKER. My response is that we have taken inventory of this system, and we are not missing any classified F-14 or Phoenix missile classified parts.

Mr. BATES. Thank you.

Mr. BENNETT. The confusion I have about what has just been addressed arises from the fact that I thought you said what you just now said, and limited it to the *Kitty Hawk*. Are you saying that is also true of anything else that you know about, any other carrier or something else?

Commodore WHITTAKER. When the allegations were made, Mr. Chairman, we took a Navywide inventory of classified parts in both systems across all air stations and carriers. We are not missing any classified parts.

Mr. BENNETT. That is done. Now I have got that completely in my head. Now the only thing I don't understand or would like to ask another question on, and if you don't want to answer it you don't have to answer it, but I assume it is a simple answer. You have qualified what you have said by saying classified material. Was there any unclassified material you found on the F-14 from any source recently going to Iran?

Commodore WHITTAKER. What we have tried to do to attack that is that on some of the parts that were surveyed on the *Kitty Hawk*, that is why we are taking a cradle-to-grave inventory, to see if we are missing any of those parts. Those parts are missing on the *Kitty Hawk*. Therefore, we would like to know if we have those missing throughout the system. So I can't say that there are no F-14 parts that have gone to Iran. I can't say that. I don't know that.

Mr. BENNETT. Do you know if there are any F-14 parts missing from the *Kitty Hawk*?

Commodore WHITTAKER. Yes; I do know there are some, and those are the ones that we are inventorying "cradle to grave" in the supply system.

Mr. BENNETT. But you haven't any evidence that they went to Iran?

Commodore WHITTAKER. None whatsoever.

Mr. BENNETT. I think that probably clarifies the question. He is telling us what he does know and what he doesn't know and he isn't saying anything except that he does and doesn't know, and that is all he can testify to. Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

Mr. Chairman, I think in fairness to the Navy, one problem has been that the *Kitty Hawk* incident and Bob Jackson's experiences in the media have been interwoven with the F-14 thing. As I understand it, with the F-14, what happened was some time after Jackson came off the *Kitty Hawk*, almost immediately after, was when the arrests were made with regard to the ongoing FBI investigation that started in 1983 on the Iranian smuggling ring, and as I understand it, the orders for the F-14 parts, or for some of them, were made from the *Belleau Wood*.

That is why I was asking the commodore about the fact that we had a supply system which at that point at least there wasn't a dis-

crimination made on the *Belleau Wood* to the effect that they couldn't possibly use that type of part, because they don't have any F–14's.

Now, Commodore, you said the Navy has at this point essentially blocked the system so that those transfers can no longer be made to nonusers, so to speak?

Commodore WHITTAKER. Yes, sir.

Mr. HUNTER. Let me ask you another question. The supply officer on the *Belleau Wood* in my estimation, should have been able to tell, should have been able to review his parts and know what he was buying. I think that is the preeminent or the threshold qualification for doing an effective job: knowing what you are buying. Did he make a review of that shopping list that went out in the particular week when the F–14 parts were purchased?

Commodore WHITTAKER. I don't know that, Mr. Hunter. We have discussed this issue and it is a very basic issue of personal accountability. The difficulty I have as an operating supply officer in that environment is that, generally speaking, what happens is an aircraft maintenance officer or the ship's engineer will need a part. He will sign a requisition based upon his authority, will come to the supply department, and I will order it off the ship. Normally those are part numbers and not descriptive, and so normally we will get that part to get that plane up or to take care of that pump. That has been determined to be a requirement by the ship's engineer or the aircraft maintenance officer.

Mr. HUNTER. Let me go to that for just a minute, because I think that is a key to our major problem of procurement, and that is being in command versus simply being ministerial.

If, in fact, the supply officer is responsible for what he orders, and for what he receives, then he is doing something more than simply getting together and getting this grocery list from one maintenance man and getting this grocery list from another, and making sure that they all go out over the appropriate channels. He should be a reviewer of that list, and take responsibility for that list, for what he orders and what he receives. I think that is perhaps one of the breaks that we have.

I would suggest, along with your other procedures that you have outlined here, that that be a major improvement or a major aspect of that program, that supply officers are going to be held accountable for reviewing their own shopping lists. I think that at least on the ships like the *Belleau Wood,* where you order 200 parts a week, that is not insurmountable, especially if you could use a word description along with that number that says instead of one, two, three, four, it says one, two, three, four F–14 widget 6, or whatever, so he can make a fairly quick analysis of what he has ordered and he knows what he has got and knows what he will expect to receive.

Commodore WHITTAKER. We could handle that, Mr. Congressman. Could I answer your three previous questions?

Mr. HUNTER. Sure.

Commodore WHITTAKER. You asked about the toughness of the penalty. I think you ought to make it as tough as you can, because the Congress will set that.

Second, there is no intent to demean. That is certainly not my intention, but to respond to your question, my intention is to provide you the facts the way I know them.

Third, we use functions like the blue ribbon panel on procurement of ADP services, et cetera, all the time. Currently, we have such oversight, for one of my programs called ICP Resolicitation, where we have the Assistant Secretary of the Navy Financial Management, plus several outside experts doing that, and if we can get help that would certainly be a constructive recommendation.

Mr. HUNTER. I would ask the chairman maybe at some point if we could have three or four outside people from the computer industry to give us a look at things and give us a little report, and you one at the same time. You would have no problem with that, then. Would that be something you could live with, Commodore?

Commodore WHITTAKER. Yes.

Mr. HUNTER. Thank you, Mr. Chairman.

Mr. BENNETT. Mr. Sisisky.

Mr. SISISKY. Mr. Chairman, I would just submit some questions to the commodore for his answers.

Mr. BENNETT. We have some others to be submitted for the record also.

Mr. SISISKY. I am a little concerned. I listened very carefully to Mr. Jackson's testimony this morning, and I read your testimony. As you know, the toughest part of the future of the services, in my opinion, with the pressures we have on budget today, is going to be in O&M, and we are not here to castigate the Navy. I have been on the carriers, I have been on the ships and I know what trouble you have. But what I want to do, and be sure that the Navy does, is really tighten up, so we can buy the materials that we really need.

You said that only four of his charges were held up. I think that is what you said. I know you can't put yourself inside of this young man's head, but why would he talk about all of these things happening? Is this indicative of other parts of the Navy onboard ship, and aren't you the slightest bit concerned?

I know this happens in business. Everybody says it doesn't happen in business. I can testify that that is one of the biggest problems we have in business today is the internal losses that we have. But you must have some concern about its auditing procedures, and even more than that, if I heard this young man correctly, and if I heard you correctly, you said he was training other people, and I specifically asked him whether or not he was trained. In my district is the Quartermaster's School of the U.S. Army. They train people from all over the world in quartermaster techniques, in the Army Logistics Center, even the Navy Petroleum Center goes to school.

How can anybody be a supply officer or an internal auditor, and you said he wasn't, but directing a billion dollars, and that is why I asked that question what rank it has. But you must have some concern about this, and the young man's testimony. He may be erroneous in some ways, but I think perhaps he is setting our sights on something that may be more serious than we know about and you know about as a matter of fact.

Commodore WHITTAKER. There is no question you cannot be in the Navy for 28 years dealing with the equivalent of a $25 billion

corporation, you know, dealing with corporate strategy, and the implementation over time, without being concerned. We are doing everything we can and I, quite frankly, after the time I have served, see massive changes in the last 3 to 5 years, some very positive things going on from that standpoint.

But your comment is directed at the shipboard level, and I will respond to that. If you look at that process, that process is managed by an aviation engineering duty officer, probably a commander with support. The supply officer onboard the carrier has at least a master's degree usually, and a very dedicated staff to deal with all those issues in that very large process. As we go down from that level of overall management of the process, to the several hundred people who are making the process work at the lowest level, the education, background, and training are very different.

So there is no question I have some of your concerns, Mr. Congressman. All I am saying is we put our attention and our best people and everything to make that repair operation work that you have seen, and work very well, because we have so many hundreds of millions of dollars being received and put back on those planes.

Mr. SISISKY. Well, I know the Navy is very large and worldwide, and I brought up an issue 2 years ago which had to do with the prompt pay issue, and within 6 months the Navy changed all around, they found out that they were wrong, and I happen to be next door to the largest supermarket in the world, the Navy Supply Center, I know what you are doing down there, I would just urge you to really don't try to sweep it under the rug.

If you have a problem, let's face that problem head on, because I am concerned. Have you talked to this young man?

Commodore WHITTAKER. No, sir, I have not.

Mr. SISISKY. I am concerned about that. NIS never talked to him. This is ridiculous. I cannot imagine, I remember having something in my business, I guarantee you I talked to the young man that was involved in it, and I know because of the court cases and all that, maybe your general counsel told you not to do it, but it just seems to me that we need to talk to this kind of gentleman and other people about what is going on in the real world, and not through the computers and other things.

Commodore WHITTAKER. We have a very detailed training plan of action and milestones with as many as 25 to 30 actions over the last year, just to get at the training aspects you are talking about. There is no question we can improve our training now.

The comment about sweeping under the rug many of these allegations, we have developed actions in far broader areas than the basic allegations because we felt we should deal with the procurement issues afloat, and so we are dealing in a macrosense with exactly what we found, whether the allegation was there or not.

So, I would like to assure you we are taking it very seriously, and not trying to minimize or bound the problem.

Mr. SISISKY. I am glad to hear that. I know the Navy can do it when they found out they were wrong because of the instances I gave you, and I would just ask you, Commodore, the chairman advised me he will be back, so we will recess for a vote, and be back in about 10 or 15 minutes.

[Recess.]

Mr. BENNETT. You were responding to Mr. Sisisky, I believe, when we closed, and the next person is Mr. Bustamante.

Mr. BUSTAMANTE. I have no questions.

Mr. BENNETT. Mrs. Byron.

Mrs. BYRON. Mr. Chairman, I really don't have any questions. I kind of have something I want to say. One of the things that concerns me, I think we have seen it quite carefully in this day, we hold hearings up here and we have witnesses in to testify, and we are really trying to just get the information in front of us to be able to do our job a little bit better and to come forward with trying to correct things that are wrong, and from that aspect, I am not on this——

Mr. BENNETT. You are inquiring of the purpose of the hearing?

Mrs. BYRON. No, I am not. I know the purpose of the hearing very well. I am not on this subcommittee, I am the Investigative Subcommittee. I think there is some dual jurisdiction here, but the thing that concerns me is, it isn't just today, but in cases where we have had witnesses come up and you have had questions of a witness that we have been given an answer, and maybe it isn't really the answer that the witness would like to give, but it is the answer that we are given, and I think it is very difficult without having the proper answers to be able to do our job.

And so, I was sort of listening today to the three different witnesses. Unfortunately, I had to come in and out of the committee on several occasions. I don't think there is anybody that doesn't feel that we have had some problems within our services, and I am not suggesting one service more than another, because I think all three of the services have had some problems.

I think when you look at the magnitude of the amount of issues to keep track of, it becomes very difficult to keep track of managing, and I will use the Navy Supply Corps, for example, because that basically is what we are talking about today—but I have seen the same thing within the Air Force, I have seen the same thing within the Army, and as one member, I get extremely frustrated to find out how we can get this under control and how we can get better management and how we can get a better handle, so to speak, on the system that I think sometimes has run away.

I have done a little checking on my own with numerous people, and in asking what the policy is, if you are on a carrier and if you have surplus, is it usual to eliminate that surplus by eliminating it over the side of the deck?

I have gotten very interesting answers on that, and there are some answers I can understand. For example, if you have an aircraft coming in with a problem, and you have got a tractor in the way, do you lose the tractor or do you lose the aircraft and pilot?

At the same time, I think we need a better accounting system, and I think because of some of the things that we have seen happen, that have been brought to light in the last few years, we are going to find that.

I know, as a member, and I am sure all of the other members have had the same thing happen to them, people at home saying, we have talked about the ashtray, et cetera, et cetera, and yet, when you look at the overall amount of money that is spent on pro-

curement of programs, I think by and large the large programs have been managed in a very prudent manner.

There is no question that there are problems, and I think those problems should be addressed, and I think it is our responsibility to make sure that they are addressed in a proper manner, and they are rectified.

I want to commend you on holding these hearings today. At the same time, I don't like to see us overreact when there are problems, because I think there are a lot of things that are good that had been managed well, and I think we have seen some situations where there have been problems that have been addressed and have been improved, and I would like to say that I would hope that we all learn from this process, and I hope that from Mr. Jackson we have learned that you do not have a problem and wash it underneath the deck.

And so, I think if there is a problem, I have to agree with Mr. Sisisky, who said if there is a problem, let us know what the problem is and let us help you rectify it, because for us to sit here as members and crucify one service or another without having that service come to us with an honest assessment, there is a problem, is the wrong way to go, and I have got a situation that I am working on now in another service with a problem where someone's hands have been tied, and yet, they have had to come before this body and testify to things that they know are inaccurate, but because those higher ups have told them they are inaccurate and I would think that by this time frame, let's really everybody work together to try to get things done for the betterment and good of this nation, because the only person that is getting hurt is the individual service and individual personnel that is out there trying to do their job.

Mr. Chairman, I don't have any questions, but I feel very strongly on that issue.

Mr. BENNETT. I appreciate your comments and the only reason we are holding this hearing in this committee is because we were asked by a member of the subcommittee to do it, and also by Mr. Bates to do it, and it never occurred to me that—I forgot about the dual jurisdiction; we both have jurisdiction.

If you had done it, I would have been happier for you to have done it. We were asked, and I didn't say no. To me, it seems that a lot of the problem here is communications, as it is with a lot of things in life, business and anywhere else.

I have addressed that with regard to the enlisted men and officers. Basically, most people are very sacrificial in the military service, and if you see that there isn't a good communication, perhaps we ought to work on it.

The other thing, that doesn't account for everything, because that silver bullet is still sitting there, which I guess somebody put in their own pocket that is from *Kitty Hawk,* is it not?

Commodore WHITTAKER. Yes, sir.

Mr. BENNETT. Do you think the supply negligence and supply processes may have led to that, or was it, a sheer, ordinary type of theft, or do you know, or do you think it is appropriate to say it here?

Commodore WHITTAKER. We have changed the processes based upon that. We are treating silver anodes much differently. It will not occur that way again.

Mr. BENNETT. The supply function at Miramar was also highly rated by Navy inspection along with the *Kitty Hawk* and yet, this seems to suggest the Navy inspection system is not working in that you could come to people at the same time negatives were addressed, we had testimony today that some individual I believe got a reprimand and congratulation in the same mail or something like that, and of course, I can understand how it might happen, but again, it is somewhat of a communications matter.

Have any changes been instituted in the Navy inspection and evaluation system as a result of this, or do you plan any?

Commodore WHITTAKER. As a result of these actions on the *Kitty Hawk*, the supply management inspections, which we do on a cyclic basis every 18 to 24 months, have been changed.

Mr. BENNETT. What considerations led the Navy to impose a nonpunitive letter of caution to the officers in charge on the *Kitty Hawk*? That sounds on the surface like a nonpunitive letter would be a sort of slap on the wrist.

Why was it that mild?

Commodore WHITTAKER. Mr. Chairman, that is an appropriate type thing because that was issued, I believe, to the commanding officer of the ship, also to the supply officer of the ship, and when an officer in that competitive category gets a letter like that that is a very unusual action, even though it may appear from the title to be not too important. When they go up for promotions that is a very unusual administrative remedy taken.

Mr. BENNETT. Mr. Bates characterized some situations as a time when goods are in shipment when no one is responsible. If that is so, can you address that particular situation, whether that is so or not, what are the Navy procedures for responsibility of goods in shipment?

Commodore WHITTAKER. That is so, that is one of the things Mr. Bates said this morning which we, in our prepared statement, have said we are changing. We are putting in a system which we called signature control.

We think there is a large dollar value of the inventory that we ought to have precise signature control from the supply center to the ship.

We haven't had that in the past. We don't think it is necessary for every bit and piece that goes into the ship, but we intend to implement that across the system, for high value items, to minimize any loss in transit.

Mr. BENNETT. You may not be the person I should ask this question to, obviously we are getting to the end of this hearing, it is not too relevant to this hearing, but it touches on my outlook on life. That is, I have been feeling along with a lot of other Members of Congress that it is a shame that we have a situation in Europe where it is attested by General Rogers that within 1 week or 10 days, or maybe 15 at the most, we could be overrun in a conventional war.

Part of this problem is a question of ammunition. I have not yet read the General Accounting Office report. There were headlines

about it the other day saying the Navy and other branches of the service are very much oversupplied.

They are certainly not oversupplied in Europe. Have you had a chance to read that General Accounting Office report?

Commodore WHITTAKER. No, sir, you are right, I probably shouldn't comment on it, but my personal experience is that the facts don't fit that attestation.

Mr. BENNETT. Just a minute. My staff has told me that the headlines might have looked that way. The actual report, which he has read, said that in some cases, there was a request for things in advance of whether the need was there or not.

Of course, I guess Congress has some responsibilities for that, but I think we are now requesting the 9-millimeter pistol, the need for that is probably about 1,000 years from now, rather than now. We don't need a 9-millimeter pistol. We really don't need a .45 pistol.

They are not used to hit the enemy. That is what all weapons ought to be for. What a waste of millions of dollars for a weapon like that. Nevertheless, we are buying it, and that is the fault of Congress, that is not the fault of any branch of the service.

You can see I am not very much of a friend of that pistol. Anybody else have a question?

Mr. HUNTER. If I could, Mr. Chairman, although I deferred to my colleagues Mrs. Byron and Mr. Bustamante, let me just say a couple of things.

No. 1, I think we have one other problem that we didn't address, it was discussed to some degree, but I think it is a key element in maybe the psychology of the economizing in the Navy, I think throughout the service, I think perhaps on this Hill, in Congress, there is a use it or lose it attitude to some degree, and I know perhaps that is one reason that the general public, a lot of people in the general public think there is a waste in the military, because a guy who is in the service in World War II can remember perhaps his commander getting rid of all the gas masks and buying brand new ones when perhaps they could have salvaged what they had.

I know there are no more people more responsive in this country than the American military people, they more than anybody else in Government service, if you give them a direct order or goal, they will say, "yes, sir, aye, aye," they will do it. And I think that perhaps in leadership positions, and again, it is ironic this should come from Congress, Members of Congress, I think there is a feeling sometimes that success in leadership positions in the military organizations comes from being able to sell things to Congress, for example, at the top, to be able to get your program over, to make your tank program acceptable to Congress: for a base commander to get that new water purification system, whatever it might be, selling and spending money is often a sign of success, and I just wondered if when you take that down to the lower level and that it was spoken by Mr. Jackson about the fact that when you are close to the end of your cycle, you want to make sure you get that amount of money in the next cycle, you have to spend what you have got.

I think that is a psychology that goes down right from Congress all the way down through lower echelons. And so my question would be, Commodore, wouldn't it be in this peacetime situation

where our mission is not just to be battle ready, but to economize, wouldn't it be something beneficial to have a system, perhaps a personnel system, efficiency reports, fitness reports, that said a prime criterion of your efficiency report is going to be based on your capability to economize, just to make that guy who may want to throw away those gas masks because they are a little bit old or that base commander who wants to put out the $500,000 contract to buy the new officers' club or enlisted men's club to think about it and at the end of the cycle, instead of having this $50,000 being spent on something, I think you would have that military leader perhaps proudly turning that $50,000 over to his superior, saying this is money that I have saved.

So, I guess I am asking you two questions: Don't you think that in reality, that psychology still prevails in the military, as I think it does in Congress, that if you use it, you are going to lose it, and if in fact it does, don't you think maybe we should concentrate on perhaps in our personnel actions, particularly our fitness reports, emphasizing that capability to economize or ability to economize as being a criterion for promotion?

Commodore WHITTAKER. Mr. Hunter, the "use it or lose it," as you call it, is certainly not Navy policy. It is certainly not my professional policy.

Mr. HUNTER. I am aware of that.

Commodore WHITTAKER. However, I think this committee was involved in the last year or so with the Navy providing hundreds of millions of dollars back in the shipbuilding program, just because we were trying to economize, and so we are trying to do that.

I have to say truthfully I am sure that does occur some places in the military. I can give you, in my command with 52,000 people, some examples that are directly trying to get at what you are talking about. It is already a part of the fitness report system. The CO is responsible for the use of the assets on board a ship or on a shore station, and there are some specific management-type blocks in the fitness reports, so it is a part of the overall evaluation system. And yes, we know we should economize as much as possible. That is exactly what I was trying to talk about from the standpoint of looking at $1 billion of throughput on 300 items.

You are exactly right, and I totally agree that we ought to economize as much as possible. I think we are doing that in some of the examples I have given.

Mr. HUNTER. I understand the pie that you have got there, but enlisted people in the Navy aren't necessarily looking at their graphs. They are doing what they think is good for their careers and good for their upward mobility. What I am saying to you is, do you really think that that message has gotten through loud and clear to the people at the spending level and at the hands-on level, where that guy says: Instead of throwing this brass nozzle overboard and getting a new one because it's tough to shine, I am going to make a point out of making sure my boss knows that I have saved every one of these things, and I have saved all these items over here also.

In other words, I appreciate your general statement, and obviously it is not a policy of the Navy to say we are going to use it or lose it, but in reality it is not a policy of the U.S. Congress either to

balance their budget with smoke and mirrors, but we do it because it's psychological or it's something that goes with our profession, and that is sometimes necessary for politics.

I guess what I am saying is, in the politics of the services, as in the politics of Capitol Hill, I think that people think in many positions it's their job to spend money. And if they spend money, that commander, the captain of that ship, is not going to give them a bad grade, because it's best for them to have 15 items on hand when they only need 5 than not to have any, and it is best for them to get full allotment or full funding in the next cycle than to have pared down to the point where they get something less, so that is my question.

Do you really think that that psychology of economizing has pervaded the service?

Commodore WHITTAKER. There is no question we can improve on that implementation throughout the services, and there is no question in my mind that what we have gone through in the last 3 months in the Navy, the incidents I am talking about are going to have a profound change on the issues of readiness, accountability, and economy.

Mr. HUNTER. Thank you, Mr. Chairman.

Mr. BENNETT. Now, as we close this hearing—and we are closing this hearing now—I would like to say I think it has been a very fine hearing. I think a great former enlisted man has come forward candidly, expressed himself and told of the problems he had and the problems reporting it, the difficulties there, the lack of communication, and maybe the things we can learn. But he is a young man, and we do have to give credit to him for attempting to correct things whichever way he went.

Also we are closing now with a very fine man that has dedicated a long, long period of his life to the Navy and to his country, just as that young man dedicated a substantial portion of his life, and I have the utmost confidence in the Commodore and his leadership to make things better.

I am not a person who likes to ask for reports in a formal sense, and so I am not going to ask for a report. I am not really asking for a report, but I would like for you just to write down on your calendar at this time next year and you write me a letter or else come up and tell us how much you you have done to improve the situation. Because I have the utmost confidence in you. I believe a year from today you are going to be telling me that you have turned this around, that you have got this situation in hand without any great changes in the law.

If you want any changes in the law, you recommend them, or administrative things or regulations that you changed or at least you have got them on the way and you think you have got the matter in hand. I have confidence in you. If you would write that letter to me about a year from now, I would sure appreciate receiving it.

Commodore WHITTAKER. Mr. Chairman, I would be happy to, and for the record I would like to state that we will provide Mr. Bates the investigation as soon as the Privacy Act considerations are taken care of.

Mr. BENNETT. Thank you.

Mr. HUNTER. Mr. Chairman, could I just say one last thing before we close here. Incidentally, I would like a copy of that thing, too, when you get it. But one thing that bothered me very much, and I think it is a tragedy, is that the captain of that ship has been given this innocuous-looking letter, but when he is up for promotion and none of the other candidates have that letter of caution, and he has got one, he is not going anywhere. We know that.

So, essentially, this has damaged his career extensively. And you know when you look at the mission of an aircraft carrier, which is to project American power and carry out American foreign policy, which it has done fair well, and to maintain combat operations, it is a tragedy that the captain of the ship, whose job really is to be a combat commander, has had his career affected by what went wrong or some problems that they had in the supply system.

His job was to keep planes in the air, to project American power, and to do it safely. If I understand, their safety record on the *Kitty Hawk* has been pretty good, and the readiness record has been good. That bothers me a great deal, and that is the situation. Maybe that is a good reason to move as much of this purchasing operation as you can ashore, where it is not something that he has to worry about, but it is said that that has been the result of this case.

[The following questions were submitted to the witness to be answered for the record:]

APPLICABILITY OF SIMILAR PROBLEMS ASHORE AND AFLOAT

In 1982 the Readiness Subcommittee investigated inventory losses and inventory inaccuracies at Naval Supply Centers. A follow-on GAO report noted that methods used to reduce inventory adjustments or to void inventory variances were inappropriate. Your office was created in response to these activities.

Chairman Bennett: Was there any reason to believe at that time that similar problems were not occurring afloat?

Commodore Whittaker: When the ashore inventory accuracy problem surfaced, we also recognized that there were similar problems afloat.

Chairman Bennett: What actions, if any, were taken at that time for afloat units?

Commodore Whittaker: In view of the fact that in excess of 80% of the Navy's inventories are located ashore, primary emphasis was given to the solution of the ashore side of the problem first.

CRITERIA FOR MAXIMUM MANAGEMENT ATTENTION

You testified that maximum management attention is directed at 250 high-cost, high-usage aviation repairables known as the "rotatable pool."

Chairman Bennett: What is the lower cut off on dollar value of parts in the rotatable pool?

Commodore Whittaker: The criteria for an item being managed in the rotatable pool are:

- a local repair capability exists; and
- the item has at least one demand per month.

There is no lower cut off on dollar value for parts to be in the rotatable pool, but the pool is designed to manage repairable items. A sample CV pool's least expensive item costs $614.79.

Chairman Bennett: If an item is not "high usage" how expensive might it be and still escape "maximum management attention?"

Commodore Whittaker: Regardless of cost repairables which do not meet the criteria for rotatable pool are either managed under the "Intensive-Closed Loop Aeronautical Management Program" (I-CLAMP) or under "deep stock" procedures. I-CLAMP procedures are used to manage repairables that are in critical supply in the Navy wholesale supply system. If a repairable is not managed under pool or I-CLAMP procedures, then it is managed under "deep stock" procedures. All of these enhanced management controls provide one-for-one issue discipline, inventory every 18 months, intermediate level repair if local repair capability exists, and shipment to designated overhaul points when beyond economic local repair or not locally repairable.

APPLICABILITY OF SIMILAR PROBLEMS ASHORE AND AFLOAT

THE GAO also noted at that time that supply centers had both control problems--poor management and inventory control--and system problems--outdated ADP, etc.

Chairman Bennett: Was there a recognition at the time of similar problems on afloat units?

Commodore Whittaker: Yes, it had already been recognized at the time that there were inventory control problems in afloat units, which were primarily due to antiquated ADP systems. In October 1979 the Commander, Naval Supply Systems Command, in

conjunction with the fleets, completed the Automated Data System Development Plan and Functional Description for the replacement of the antiquated ADP equipment in large ships. The plan also established the requirements for a modern real time supply and financial system for all ships. The plan was followed by an ADP acquisition for ADP equipment under the Shipboard Non-tactical ADP Program (SNAP). The outdated ADP "systems" afloat were being upgraded in 1982 with new hardware. Additional ADP equipment is scheduled for phased implementation as modern software is developed and approved for fleet-wide implementation commencing April 1986. These modern data processing tools will have a significant impact upon the afloat supply department's ability to manage its inventory and financial records.

THIRD PARTY RECEIPTS

Chairman Bennett: Third-party receipt of parts appears to be a vital link in being able to divert parts away from authorized users. What specific actions have you taken to control third-party receipts of parts?

Commodore Whittaker: As long as third-party recipients are legitimate-integral parts of the supply distribution system, or authorized customers, we will not be able to eliminate the threat. We will, however, be able to reduce the potential for successful diversions by:

a. Increasing the frequency and scope of NIS undercover operations.
b. Programming our supply computers to reject requisitions for sensitive equipment and material which is not installed at or utilized by the requisitioning activity.
c. Utilizing ADP routines to scan requisition history files for suspicious trends or events.
d. Ensuring, through background reviews, that only the most reliable people are placed in critical positions in the supply operation.
e. Limiting access to automated requisitioning aids only to those who must have access.
f. Manually reviewing selected requisitions to challenge unauthorized users or unauthorized requests for inapplicable material.

Each of the above actions is either currently in place or being implemented.

SHIPBOARD INTERNAL CONTROLS AND AUDITS

Chairman Bennett: What sorts of internal controls and audit procedures on ships are you establishing to improve inventory accuracy and financial reporting?

Commodore Whittaker: For two years the Naval Supply System Command and fleets have been working on some key actions to improve inventory accuracy and financial reporting, including: implementing the Shipboard Uniform Automatic Data Processing System Release III to provide modern inventory and financial software; putting our Cumulative Transaction Ledger on computer disc to allow on line research for error correction and financial reconciliation; implementing the Navy Repairables Management Module of the Naval Air Logistics Command Management Information System (NALCOMIS) on carriers to improve control of repairables; increasing Aviation Storekeeper manning; increasing training for afloat supply personnel; and establishing Quality Assurance divisions in ships.

To improve our control of spare parts we are taking several actions to improve physical security, including: consolidating high cost repairables and other critical assets and limiting access to storerooms; requiring signature service during transportation of high cost and critical spares; tightening security at temporary material staging areas and in all ADP spaces; reemphasizing classified material control procedures and increasing random inventories of repairables.

In addition to the above actions to increase control and accuracy, we are implementing the Secretary of the Navy's Internal Control program afloat, including vulnerability assessments in the following functional areas: supply, financial, procurement, ADP, property management (including physical inventory) and transportation. The objectives of the internal control program include ensuring financial and other resources are safeguarded from unauthorized use or disposition; transactions are executed in accordance with authorizations; records and reports are reliable; applicable laws, regulations and policies are adhered to; and resources are efficiently and effectively managed.

We are also reemphasizing Supply Material Inspection coverage of the inventory accuracy, financial reporting and physical security areas.

The most significant improvements in controlling both inventory accuracy afloat and financial reporting will be realized commencing April 1986. At that time our large ships will begin using new computer hardware and software to input information on-line, with real time edits and validations to permit timely error correction.

FINANCIAL AUDITOR

Chairman Bennett: Was Mr. Jackson transferred to the Supply Department on KITTY HAWK in early December 1984? If so, why would someone not in a supply rating be assigned to the Financial Division on an aircraft carrier and be designated as a "Financial Auditor?"

Commodore Whittaker: Mr. Jackson was, in fact, transferred to the Supply Department on KITTY HAWK in December 1984. His auditing responsibilities focused on the internal manual OPTAR records maintained by the divisional OPTAR records keepers. His charter was to discover errors in the divisional OPTAR records and reconcile these unofficial logs with the official mechanized records. This process is similar to balancing a check book with a bank statement.

Mr. Jackson's assignment to the OPTAR records audit and training functions was based on various factors:

a. He demonstrated an interest and motivation.

b. He requested transfer to the Supply Department to gain further experience in financial management in order to supplement a resume on completion of active duty.

c. He had submitted a beneficial suggestion for a training program for OPTAR records keepers and as a member of the Supply Department he could implement his recommendations.

d. He had completed one year as the OPTAR records keeper for the Operations Department.

e. He had civilian experience as a financial planner.

NEED FOR LEGISLATIVE REMEDIES

Chairman Bennett: In his testimony Congressman Bates made a number of specific recommendations for actions to correct problems in the supply system. Many of these were suggested as legislative remedies. Please comment on the following:

- compartmentalization of classified parts and periodic inventories of them
- regular audits of afloat commands
- a process for immediate inventory of parts suspected to be in jeopardy
- installation of an automated inventory system security procedure
- an apparent lack of responsibility for materials in transit
- changing the personnel evaluation system to better reflect inventory management

Commodore Whittaker: Legislative remedies are not required to implement warranted supply system policy and procedural modifications. As reflected in my written testimony, actions recommended by Mr. Bates duplicate initiatives already established by the Navy to strengthen physical security. Specifically:

- High cost repairable and other critical assets are being consolidated in a few select storerooms aboard ship. Access will be limited to a small select group of accountable custodians. Segregated stowage and regular inventories of "classified" parts have historically been standard operating procedures and, since no classified F-14 or Phoenix parts are unaccounted for, do not appear to warrant modification.
- The "checking" function for afloat operations is accomplished during multiple inspections, evaluations and assist visits. These numerous audits, assist visits and inspections cover command functions and all departments of the ships. All functions of the Supply Department are inspected. Introduction of further audits to an already hectic afloat operational schedule would be counter-productive for scarce Personnel resources.
- Upon receipt of the FBI listings of material stolen by the Iranian ring, inventories were immediately conducted world-wide for all classified F-14 parts. We also inventoried all PHOENIX missile classified parts because of a press statement saying they were involved in the case. The inventories showed that the supply system is not missing any F-14 or PHOENIX classified spares. Our proactive policy is to identify targeted spare parts and prevent theft. If there is suspicion of theft we will react with inventories and computer/paperwork searches to isolate and prosecute the thieves.
- All reasonable measures have been taken given the trade-off between security and productivity. The on-going modernization programs for our logistic computer network include state-of-the-art access control software. Current systems are not highly vulnerable to hackers. The primary threat is from insiders that are authorized to access and manipulate our files. We are developing an up-front ADP edit capability that will lock out unauthorized users for targeted weapons systems. Additionally, we are utilizing theft detection software to scan customer requisitions, on an after-the fact

basis, looking for unauthorized material diversions.
- Signature service transportation of high cost and critical spares is being implemented to ensure shipment to receipt accountability.
- Currently, reporting seniors note performance in the personnel and material management areas in an officer's fitness report. Where applicable, evaluation of the officer's performance in the financial management area is noted as part of his overall performance.

SUPPLY MANAGEMENT INSPECTIONS AND PERSONNEL EVALUATIONS

On page 6 of your prepared testimony you note nine essential areas for performing the mission of the supply system:

Chairman Bennett: To what extent are these items checked in the regular supply inspection aboard ships?

Commodore Whittaker: Supply Management Inspections (SMI) evaluate ships in the following functional areas: Surface Support; Material; ADP; Aviation Stores; Private Messes; Disburing; Retail Sales; Food Service; Financial; Stores (Stock Control); and Administrative Training. These inspections, and various other assist visits, generically cover the nine essential areas.

Chairman Bennett: To what extent do they form the basis for personnel evaluation?

Commodore Whittaker: Officer and senior enlisted personnel are evaluated on both material and personnel management. Certainly the nine essential areas are part of these broader evaluation criteria.

SUPPLY MANAGEMENT INSPECTIONS

Chairman Bennett: I wonder if you could tell us a little about the Supply Management Inspection (SMI) system. Apparently, the KITTY HAWK fared quite well on its SMI's even while the problems you have discussed this morning were developing. Why is that?

Commdore Whittaker: The KITTY HAWK fared well on her SMI because her aggregate score in all functional areas was the best in COMNAVAIRPAC. Her grades in Stores (Stock Control) and Financial were slightly below the rest of her grades, but were still strong.

Chairman Bennett: What does the SMI purport to measure?

Commodore Whittaker: The SMI evaluates performance in the following functional areas of the Supply Department:
- Administrative Training;
- Stores (Stock Control);
- Financial;
- Food Service;
- Retail Sales;
- Disbursing;
- Private messes;
- Aviation Stores;
- ADP;
- Material; and
- Surface Support.

The SMI evaluation factors include: environment, operational schedules, variations in facilities, workload, types of activities supported, analysis of available management reports, and review of management procedures.

Chairman Bennett: How well does it measure it?

Commodore Whittaker: The SMI provides a reasonable measure of the supply department functions which are critical to the material readiness of the ship/airwing and quality of life factors which affect the crew. However, we see the need and have taken action to provide for greater in depth inspection in the areas of inventory and financial accuracy under the Stores and Financial functions, and physical security in SMI's to ensure they receive balanced consideration with material readiness and quality of life factors.

Chairman Bennett: Is that the right or relevant thing to be measuring?

Commodore Whittaker: Yes, the right and relevant things are being measured during SMI's. As just discussed, however, additional emphasis will be placed on the inspection of inventory and financial accuracy, and physical security.

ALLEGED OVER-OBLIGATION OF FUNDS

Mr. Spence: Did the KITTY HAWK over-obligate its 1983 OPTAR funds, leading to subsequent charges of fraud?

Commodore Whittaker: Yes, the KITTY HAWK exceeded its Fiscal Year 1983 Operating Target (OPTAR) administrative limitations with the knowledge of the Type Commander, Commander Naval Air Force, Pacific. However, the recently completed Navy Judge Advocate General investigation concluded that there was no fraud aboard the KITTY HAWK as alleged.

Mr. Spence: What is the Navy doing to prevent a recurrence?

Commodore Whittaker: Ship OPTAR levels are monitored at the Type Commander through monthly reports from both the ship and the ashore accounting system. The ship's OPTAR is an estimate of the resources required by the ship's Commanding Officer to carry out his mission. The ship's Type Commander (TYCOM), in this case, the Commander, Naval Air Force, U.S. Pacific Fleet (COMNAVAIRPAC) is responsible to ensure that he does not over-obligate his TYCOM Expense Operating Budget (EOB) provided by CINCPACFLT. COMNAVAIRPAC did not over-obligate his EOB in Fiscal Year 1983. This responsibility, to not over-obligate at the EOB level, is specified in Public Law US Code 1517. This code, however, does not apply to shipboard OPTARs. Therefore, even though KITTY HAWK did overobligate its FY 83 OPTAR, it did not violate Public Law.

$14 MILLION WORTH OF SURVEYS

Mr. Spence: Is the $14 million worth of surveys made by KITTY HAWK in preparation for its supply inspection a reasonable amount, in your view?

Commodore Whittaker: There is not an "acceptable" upper limit to the money value of surveys. Every reasonable effort must be made to research unexplained inventory adjustments and to reconcile differences between records and actual physical counts as close to zero as possible. There is a point in the progress, however, where the cost of researching unexplained losses will be greater than the value gained or that no further process can be made.

Mr. Spence: Also, was adequate care taken to try to find the missing items before a survey was prepared?

Commodore Whittaker: In the specific case of the $14 million

worth of surveys on board KITTY HAWK, in as much as we have reduced the value to $3.6 million through causative research, it is clear that initially more research could have provided a positive return. It is important to note that the research which reconciled additional errors was conducted by dedicated contractor personnel with no other duties or responsibilities. As there is a clear payoff to this additional level of research, we are establishing dedicated error reconciliation teams in each fleet to perform this function on a regular basis.

INVENTORY LOSS PROCEDURES

Mr. Spence: Are you satisfied with current Navy procedures for documenting and handling inventory losses?

Commodore Whittaker: The Naval Supply Systems Command is presently reviewing the current procedures and will revise them where appropriate. A new form is being developed to document inventory losses.

Mr. Spence: Should ships be made more accountable for losses of high-value parts?

Commodore Whittaker: Yes. Ships should be made, in financial terms, more accountable for losses of high-value parts. Recognizing this need, the Navy will implement a program commencing April 1986 which charges the ship's end use account, instead of the Navy Stock Fund, for losses. This program will provide an incentive for the ships to better manage and control their expensive repairable material.

Mr. Spence: Should this be accompanied by better materials handling ashore?

Commodore Whittaker: Yes. As a result of the Naval Supply Systems Command's inventory accuracy ashore program numerous actions have been taken to improve ashore materials handling and inventory control, including increasing physical security, improving physical inventory methods, increasing training, adequate resourcing, emphasizing chain of command accountability, improving warehouse operating systems, automated warehouse and process control systems, electronic bar coding on issue documents, and controlled shipments for high dollar value material. These actions will serve to improve documentation and control of material destined for ships.

THEFT DETECTION

Mr. Spence: How well do you think you are able to detect theft from the system when the sheer magnitude of inventory adjustments is likely to mask a theft problem?

Commodore Whittaker: Like similar shrinkage or inventory variance problems in industry, inventory adjustments make it difficult to differentiate between real theft and "paper" or bookkeeping losses. With our renewed awareness of our vulnerability to theft, and the reality that inventory adjustments mask theft, we have taken several actions to increase our physical security. These actions include centralized storage of our expensive and targeted items in accountable storerooms and utilizing theft detection software and computer lock outs to prevent unauthorized requisitioners from ordering material.

INSIDER THEFT

Mr. Spence: Can you ever really protect a supply system against exploitation by a knowledgeable insider?

Commodore Whittaker: No. However, we will limit the risk of theft by creating an environment to deter theft and then use theft prevention and detection software to ensure personnel realize that they will eventually be caught.

PHYSICAL SECURITY

On page 15 of your statement you note a series of corrective actions now underway to correct physical security problems.

Mr. Spence: What is the timetable for completing these actions?

Commodore Whittaker: The physical security corrective actions vary in complexity and difficulty. However, all are targeted for completion within 3 months, except for the increased Naval Investigative Service (NIS) staffing.

Mr. Spence: What additional resources, if any, do you need to carry them out?

Commodore Whittaker: A requirement for increased NIS staffing exists but exact resources requirements have not yet been quantified. This effort will require time to program, budget, recruit and train the additional staff.

READINESS

Mr. Spence: What do you think the effect on readiness will be in consolidating and controlling access to certain critical spares?

Commodore Whittaker: The effect of consolidating and controlling access to certain spares on readiness is expected to be minimal, but will be monitored very closely.

PERSONNEL RELIABILITY SCREENING

Mr. Spence: Please explain more about the personnel reliability screening program you are starting for supply personnel. Will it be like the Personnel Reliability Program in place for those involved with nuclear matters?

Commodore Whittaker: The reliability screening program envisioned for supply personnel will be similar to the purpose of the Personnel Reliability Program. Activities will be directed to be especially diligent in the selection of key personnel who will be assigned responsibility for afloat inventory records and accountability for material in storerooms. Only personnel who have demonstrated loyalty, integrity, and trustworthiness will be assigned to these key positions.

QUALITY OF LIFE

Mr. Spence: What effect, if any, will the changes in afloat procurement practices you are now implementing have on continuing efforts to improve the quality of life on our carriers and other ships?

Commodore Whittaker: The changes we are making in afloat procurement practices, including the establishment of pierside purchasing offices at our fleet support activities, will accelerate our efforts to improve shipboard quality of life as well as insure we achieve maximum competition for our ships' habitability purchase requirements. In conjunction with the Navy's initiatives to transfer fleet purchasing ashore, improve

pricing and increase training, East Coast and West Coast contracting activities have been tasked with developing and competitively awarding Master Indefinite Delivery Fleet Habitability Contracts. These competitive contracts, which supplement eleven shipboard self-help habitability contracts already in place, will provide for messing space and bulkhead refurbishment, tile and terrazo replacement, equipment repair/ replacement and other shipboard quality of life improvement requirements. Once awarded in early 1986, these master contracts will permit our pierside purchasing offices to order ship habitability improvements immediately upon receipt of a purchase request from any of our fleet units. In the meantime, the Navy's fleet support purchasing offices are giving the highest priority to contracting for all fleet requirements, including quality of life items.

RECORDS REVIEW BY SUPPLY OFFICIALS

Mr. Spence: How frequently does the Supply Officer review the records of requisitions, receipts, and OPTAR accounts?

Commodore Whittaker: The Supply Officer, like any manager, is expected to monitor his operations on a continuous basis to ensure compliance with regulations.

Stock replenishment requisitions are required to be reviewed by the Stock Control Officer, who is an assistant to the Supply Officer. Requisitions will also be spot checked by a Quality Assurance (QA) Team that reports directly to the Supply Officer.

Receipt processing is reviewed by the officers in charge of the receiving and storing divisions and by the Stock Control Officer. Receipts will likewise be spot checked by the QA Team for the Supply Officer. Our initiative to use electronic bar coding on shipping documents will help increase the timeliness and accuracy of the receipt process. Timely and accurately processed receipts will increase the accuracy of our financial records on the ship and improve the efficiency of the ship-to-shore reconciliation with the Fleet Accounting and Disbursing Centers.

OPTAR accounts are reviewed once each week, or every 10 days on large automated ships. The Supply Officer provides each customer department with a statement showing that department's status of funds. This allows each department to reconcile its individual memorandum records with the ship's official automated records in a fashion similar to balancing a checkbook with a bank statement.

This process is further augmented by the quarterly Material Obligation Validation (MOV) procedure by which customer requisitions are validated for continued need. The MOV process also serves to ensure receipts have been properly documented thereby ensuring OPTAR accounts are accurate.

Mr. Spence: Is this adequate?

Commodore Whittaker: Yes. The frequency of, and procuedures utilized, to review records of requisitions, receipts and OPTAR accounts is considered adequate.

CONSPIRACY

Mr. Sisisky: Mr. Jackson has characterized the forging of signatures on survey documents and matters relating to reporting of net expenditures as a "...conspiracy (that) went into the senior ranks...". Did you, in fact, find evidence of such a conspiracy?

Commodore Whittaker: No. The JAG manual investigation did not develop any evidence to support Mr. Jackson's opinion that there was some sort of conspiracy.

SURVEY PROCEDURES

Mr. Sisisky: Please explain the "survey" procedures as it was implemented on KITTY HAWK. I am looking at a survey form from KITTY HAWK that is for 2 gyroscopes with a total value of $31,380. The survey form seems to be contradictory because it says the items are lost, that a careful check has not discovered them, and that they are lost in a known location (the storeroom).

Commodore Whittaker: The current Navy policy is that the "survey" procedure, implemented by KITTY HAWK, be used to document inventory loss of the two gyroscopes. The Naval Supply Systems Command has reviewed the survey procedure and is implementing a new form which will be used to document inventory adjustments.

Mr. Sisisky: Are survey documents reviewed for reasonableness?

Commodore Whittaker: With respect to reviews of surveys for reasonableness, the Commanding Officer, or his designated representative, is responsible for reviewing all surveys for reasonableness.

Mr. Sisisky: What specifically is the circumstances for the gyroscopes?

Commodore Whittaker: The actual reconciliation of the survey for two gyroscopes showed that a previous transfer of the two gryoscopes to USS CARL VINSON was not documented.

Mr. Sisisky: Are they lost or are they in the storeroom?

Commodore Whittaker: As just discussed, the gyroscopes are not lost. They were transferred to the USS CARL VINSON without proper documentation at the time of transfer.

GPLD (GOVERNMENT PROPERTY LOST OR DAMAGED) SURVEY CERTIFICATE

1. TO (Name and Address of Reviewing Authority)
COMMANDING OFFICER
USS KITTY HAWK CV-63
FPO SAN FRANCISCO, CA, 96634

2. FROM (Name and address of Activity assigned responsibility for GPLD)
SUPPLY OFFICER 96634
USS KITTY HAWK CV-63
FPO SAN FRANCISCO, CA,

3. NAME AND GRADE OF PERSON FORMING OPINION DURING AUDIT
B [redacted] LCDR.

4. VOUCHER NUMBER
R03363-4340-1168

5. I certify that the ■ lost ☐ damaged items described below was not caused by [redacted] misconduct or deliberate unauthorized use. I further certify that the loss of or damage to the items occurred under the circumstances described herein.

6. NATIONAL STOCK NO. OR MANUFACTURERS PART NO.	7. NOMENCLATURE	8. QUANTITY	9. UNIT OF ISSUE	10. UNIT COST	11. EXTENDED COST
6615-00-928-0072	R03363-4340-1168 GYROSCOPE, COG 2R	00002	EA	15690.	$31,380.

12. TOTAL COST OF LISTED ITEMS → $ 31,380.00

13. CIRCUMSTANCES OF LOSS OR DAMAGE

WHILE IN THE PROCESS OF SCHEDULED INVENTORY THE MATERIAL COULD NOT BE LOCATED. A BLOCK SEARCH AND STOREROOM CHECK FAILED TO TURN UP MATERIAL. THE MATERIAL WAS NOT IN THE LOCATION INDICATED.

"I CERTIFY THAT THE LOSS OF OR DAMAGE TO THE ITEM(S) DESCRIBED WAS NOT CAUSED BY NEGLIGENCE, WILLFULL MISCONDUCT, OR DELIBERATE UNAUTHORIZED USE. I FURTHER CERTIFY THAT THE LOSS OF OR DAMAGE TO THE ITEM(S) OCCURRED UNDER THE CIRCUMSTANCES DESCRIBED HEREIN."

CAUSE: ITEM WAS STOWED INCORRECTLY OR MATERIAL WAS RELOCATED WITH THE RELOCATION PAPERWORK PROCESSED INCORRECTLY, CAUSING MATERIAL TO BE "LOST" IN THE STOREROOM.

14. TYPED NAME & GRADE OF ACCOUNTABLE/RESPONSIBLE OFFICER	14a. SIGNATURE	14b. DATE
T. E. ADAMS, LTJG, SC, USN	TEA	

THIS PORTION TO BE COMPLETED BY REVIEWING AUTHORITY AND RETURNED TO ACTIVITY INDICATED IN ITEM 2

15. I have reviewed the evidence pertaining to the loss or damage and ☐ agree [redacted] that the loss or damage to the property was not due to [redacted] ☐ gross negligence, willful misconduct, or deliberate unauthorized use. The following action is authorized:

☒ a. An inventory adjustment for the property which was not lost through [redacted] ☐ gross negligence, willful misconduct, or deliberate unauthorized use.

☐ b. Repair the damaged property and charge to O&M/stock fund as fair wear and tear as damage was not caused by gross negligence, willful misconduct, or deliberate unauthorized use.

☐ c. The circumstances surrounding the loss or damage warrant the processing of a report of survey, DD Form 200, to be initiated immediately.

☐ d. Other action (Specify):

16. TYPED NAME & GRADE OF REVIEWING OFFICER	16a. SIGNATURE	16b. DATE
J. C. MATTHEWS, CDR, SC, USN X7095	[redacted]	

DD FORM 1 SEP 77 2090 S/N 0102-LF-002-0900 GBLD (Government Property Lost or Damaged Survey Cert.)

Mr. BENNETT. The subcommittee will stand adjourned.
[Whereupon, at 3:35 p.m., the subcommittee adjourned.]

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